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Prize Economic Essays

THE CAUSE AND EXTENT OF THE RECENT INDUSTRIAL PROGRESS OF GERMANY. By Earl D. Howard.

THE CAUSES OF THE PANIC OF 1893. By William J. Lauck.

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THE CAUSES OF THE PANIC OF 1893

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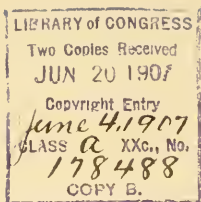
BY

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To B.

PREFACE

THIS series of books owes its existence to the generosity of Messrs. Hart, Schaffner & Marx of Chicago, who have shown a special interest in trying to draw the attention of American youth to the study of economic and commercial subjects, and to encourage the best thinking of the country to investigate the problems which vitally affect the business world of to-day. For this purpose they have delegated to the undersigned Committee the task of selecting topics, making all announcements, and awarding prizes annually for those who wish to compete.

In the year ending June 1, 1905, the following topics were assigned: —

1. The cause and extent of the recent industrial progress of Germany.
2. To what is the recent growth of American competition in the markets of Europe to be attributed?
3. The influence of industrial combinations upon the condition of the American laborer.
4. The economic advantages and disadvantages of present colonial possessions to the mother country.
5. The causes of the panic of 1893.
6. What forms of education should be advised for the elevation of wage-earners from a lower to a higher industrial status in the United States?

7. What method of education is best suited for men entering upon trade and commerce?

The present volume was awarded the first prize.

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INTRODUCTION

IN approaching the problem of the causes of the crisis of 1893, it is necessary to adopt a somewhat unusual mode of procedure, owing to the fact that in November, 1890, three years previous to the crisis of 1893, a severe financial panic was felt in Great Britain, Germany, and the United States.

Such a breakdown in the financial world as that of 1890, followed by a more violent collapse during 1893, suggests a possible connection between these two events. In order, therefore, to clear the ground thoroughly before entering into a direct examination of the causes of the crisis of 1893, it is first necessary to dispose of the preliminary question as to the effect, if any, of the panic of 1890 upon the crisis of 1893. To do this properly requires the solution of a problem involving two elements: first, to discover the causes of the panic of 1890; and, second, to ascertain whether these causes were still in operation, even in a modified form, after 1890, and consequently whether they were in any way responsible for the crisis of 1893.

The working-out of the first process in this problem — the inquiry into the causes of the panic of 1890 — obviously necessitates an examination of the financial and industrial movements, both at home and abroad, which were developing during the years immediately preceding 1890, and which finally came to a head in the panic of that year.

THE CAUSES OF THE PANIC OF 1893

CHAPTER I

BUSINESS AND TRADE CONDITIONS IN THE UNITED STATES, 1884-1890

First Indications of a Revival in Trade and Industry after the General Depression in Europe and America. — The Building of New Railroads, 1886-1890. — Revival in Industry and Agriculture. — The Expansion of Interior Trade and the Growth in the Consuming Power of the Country. — Increase in Importations resulting in a Trade Balance against the United States. — Unusual Amount of American Securities issued during the Years 1886-1890. — Acceptance of American Securities by Foreign Creditors in Payment of Trade Balances. — Growth of a Surplus Revenue. — The Extension of the Protective System. — The Adoption of a Policy of Increased Government Expenditures.

DURING the year 1882 there was a disastrous financial panic in France. Two years later the United States experienced a similar calamity.¹ Out of the general depression following these two events, however, there soon developed a reactionary movement which, year by year, up to 1890, grew stronger and more extensive in its influence. In taking up the first step, therefore, in the preliminary problem of the connection between the panic of 1890 and the crisis of 1893, and going backward to trace out the causes of the panic of 1890, the starting-point is found to be in the United States, where this tendency toward a revival in trade and industry first made its appearance.

Amid the widespread stagnation which followed the crisis of 1884 in the United States, there was one exceptional feature which stood out prominently and which

¹ *The Commercial and Financial Chronicle*, Financial Review of 1884.

made itself clearly evident in the fact that confidence in the value of railroad property was never lost.¹ But owing to the waging of rate wars between competing railroad lines during the two years 1884-85, and the diminution in the volume of traffic because of the depression in interior trade after the crisis of 1884, dividends on railroad stocks were reduced and in many cases passed. Consequently there was a hesitancy on the part of investors in entering into railroad undertakings of more than ordinary magnitude.² By the close of the year 1885,

¹ This fact appears from an examination of the quotations of some of the representative railroad stocks on the New York market before and after the crisis of 1884. (The fractional parts of the quotations are omitted.)

Stocks.	1884						1885	
	January		June		December		December	
	Low	High	Low	High	Low	High	Low	High
Atch., Top. and S. Fe.	80	80	62	73	76	78	84	86
Chesapeake and Ohio	13	15	5	10	5	6	11	13
Chicago, Burl. and Quincy	118	123	107	117	113	122	132	138
Chicago, Mil. and St. Paul.....	84	94	58	77	69	81	89	96
N. Y. Cent. and Hud. River ...	110	115	94	108	83	92	101	106
Northern Pacific .	18	27	14	22	16	18	26	30

Compiled from *The Commercial and Financial Chronicle*, Financial Review of 1886, pp. 77-79.

² The year 1884 was marked by a demoralizing rate war, which continued through the early half of 1885, and included within its influence the trunk lines and the roads west of Chicago. It was also especially strong in the East, where the New York Central and Hudson River Railroad deliberately attempted to drive the Lake Shore out of business. As might be expected, there was a great reduction in the net earnings of the railroads on account of these conditions, and as a result capital refused to embark in railroad enterprise. During the three years 1885 to 1887 only 13,649 miles of new railroad were built, in comparison with a construction of 28,127 miles during the preceding period of three years.

however, the railroad companies had found it both practical and necessary to divide the traffic and maintain rates.¹ A tolerably certain status in railroad profits was thus assured. During the following summer, when there were indications of good crops in the face of an active foreign demand, and of an improvement in general business and especially in railroad traffic, confidence in railroad enterprise was fully restored and capital once more entered freely into railroad construction.²

In gathering together their forces for a new start in railroad undertakings, the efforts of capitalists were at first directed toward the reorganization of some of the old companies. The main current of enterprise, however, soon turned toward the exploitation of regions in the South, the Southwest, and the Northwest, and the construction of new mileage in these sections was actively pushed forward. The lines of the Atchison, Topeka and Sante Fé, the Missouri Pacific, the Chicago and Rock Island, and the roads leading from Chicago to the North and Northwest, were rapidly extended by companies possessing strong credit and capable of carrying their projects to completion with economy and dispatch. The total construction of new lines during the five years beginning with 1886 and ending with 1890 was over 39,000 miles or an increase of more than 30 per cent., and of this total, 19,044 miles, or almost one half, was built in the states and territories of the Northwest and Southwest.³

The significance of this extraordinary extension of railroad mileage in its bearing upon general industrial conditions becomes evident at a glance. Taking the country as a whole, a very moderate estimate of the cost

¹ During the latter half of 1885 the West Shore Railroad was absorbed by its rival the New York Central, and a pool was organized by the trunk lines and other companies to distribute the traffic and maintain rates.

² *The Commercial and Financial Chronicle*, Financial Review of 1886 p. 1.

³ The total railroad construction during this period, and the distri-

of railroad construction, including stations, terminals, tunnels, and rolling-stock equipment, could not have been less than \$20,000 per mile. The building of 39,000 miles of railroad, therefore, during the period 1886-90 called for an investment, in one way or another, of over \$780,000,000, and the demand for commodities of all kinds flowing from this enormous outlay of capital soon made itself felt in all lines of production.

The iron and steel industry, which is usually considered to be a barometer of general industrial conditions, advancing step by step with the progress in railroad construction, passed through a period of unprecedented

bution of the mileage among the different states and territories may be readily seen in the following table, compiled from Poor's *Manual of Railroads*:

RAILROAD CONSTRUCTION IN THE UNITED STATES, 1886-1890.

States and Territories.	1886	1887	1888	1889	1890
New England Group ...	43	131	192	92	102
Middle Group	338	227	299	451	488
Central North Group — O., Mich., Ind., Ill., Wis.	1,288	1,784	900	911	734
South Atlantic Group — Va., W. Va., N. C., S. C., Ga., Fla.	847	800	1,202	1,183	1,190
Gulf and Miss. Val. Group — Ala., Miss., Tenn., Ky., La.	319	763	1,025	851	752
Southwestern Group — Mo., Ark., Tex., Kan., Colo., N. M., I. T. ..	2,245	5,351	1,574	886	928
Northwestern Group — Ia., Minn., Neb., Dak., Wyo., Mont.	2,481	3,209	879	662	829
Pacific Group — Wash., Ore., Cal., Nev., Id., Ariz., Utah	513	685	954	664	645
Total United States...	8,128	12,982	7,028	5,695	5,670

prosperity during the years 1886-90.¹ An expansion in iron ore and coal mining quickly followed.² From these industries so directly connected with the iron and steel trade, the revivifying movement spread outward and included within its influence all branches of manufacturing and extractive enterprise.³ At the same time a revival in agriculture was clearly in evidence. The remarkable activity in railroad construction during the period 1886-90, as already seen, was mainly turned toward the sparsely settled regions of the South, Southwest, and Northwest. The railroad companies entering these districts were in possession of immense tracts of land, and in order to exploit the country and develop traffic, these holdings, together with large areas of government territory, were thrown open on generous terms to settlers.⁴

¹ The rapid increase in the production of iron and steel is shown in the following table compiled from the *Annual Reports* of the American Steel and Iron Association:

Year.	Iron Furnaces in Blast. Number.	Production of Pig Iron. All kinds. Net tons.	Production of Bessemer Steel Ingots. Net tons.	Production of Bessemer Steel Rails. Net tons.
1885	276	4,529,869	1,701,762	1,074,607
1886	331	6,365,328	2,541,493	1,763,667
1887	339	7,187,206	3,288,357	2,354,132
1888	332	7,268,507	2,812,500	1,552,631
1889	344	8,516,079	3,281,829	1,691,264
1890	311	10,307,028	4,131,535	2,091,978

² *Annual Report of the American Steel and Iron Association*, 1889, pp. 17, 24.

Profits during the years 1886-87 were very large. The price of No. 1 pig iron reached \$21.50 per ton in 1887, and steel rails sold as high as \$40 per ton in March of the same year. Throughout the subsequent period, 1888-90, prices were such as to insure good profits.

³ *The Commercial and Financial Chronicle*, Financial Reviews 1886-1890.

Statistical Abstract of the United States, 1894, p. 352.

⁴ The combined land sales of the Union, Central, Northern, and Kansas Pacific railroads, together with the Atchison, Topeka and Santa Fé, amounted during the years 1886-87 to 2,696,821 acres.

The enormous acreage of government lands made available for agri-

This policy on the part of the railroads and the Federal Government was followed by the influx of a large and industrious population into the newly opened districts, and under its management the soil was quickly brought under cultivation and made to contribute in large measure to the agricultural resources of the country.¹ The effect was clearly visible during the years 1886-90. The entire period was marked by good crops, profitable prices for agricultural products, and by a healthy and prosperous growth among the agricultural as well as the manufacturing interests.

This unusual activity in manufacturing and agricultural operations was quickly reflected in a rapid expansion of trade and business. Confidence was fully restored and no difficulty was experienced in securing loans and discounts. The banks throughout the country steadily extended their credit operations.² The movement of freight on the

culture and other purposes, and the close connection between the exploitation of the country and the building of railroads is shown in the following table:

TOTAL DISPOSALS OF PUBLIC LANDS, BOTH FOR CASH AND UNDER THE HOMESTEAD AND TIMBER CULTURE LAWS, 1885-88.

States and Territories	1885	1886	1887	1888	Total for period.
	Acres	Acres	Acres	Acres	Acres
Northwest ..	8,808,172	7,414,256	6,093,676	4,933,501	27,249,605
Southwest ..	3,827,499	7,231,625	6,622,192	5,509,470	23,190,786
Pacific.	2,386,532	2,543,225	2,700,256	3,426,361	11,026,374
Southern...	979,360	986,501	1,865,841	2,332,289	6,163,991
Total ...	16,001,563	18,175,607	17,281,965	16,201,621	67,660,756

During the two years 1889-90 there was a decline in railroad construction, and the mileage built was more evenly distributed over the country than in previous years. *The Commercial and Financial Chronicle*, vol. xlvii (December 1, 1888), pp. 652-53.

¹ *Abstract of the Twelfth Census*, 1900, p. 32. *The Commercial and Financial Chronicle*, Review of 1890, p. 3.

A large percentage of the new settlers were immigrants from Northern Europe. *Statistical Abstract of the United States*, 1895, pp. 355-56.

² There was never any severe and continued stringency in the money market during the period 1886-88, when railroads and other industries

railroads during 1886 was largely in excess of any previous year, and with this before unparalleled record as a starting-point, the aggregate tonnage carried, together with the gross receipts from traffic operations, constantly increased during the subsequent four years.¹ A similar

called for a large amount of funds, and not until the latter half of 1890 was there any such difficulty in getting call loans in New York as to interfere with the operations of the Stock Exchange. Throughout this period, however, the banks, as a result of the commercial and industrial activity, were greatly increasing their loans and discounts. This fact appears in the following statement of the loans and deposits of national banks, taken from the *Reports* of the Comptroller of the Currency:

LOANS AND NET DEPOSITS OF NATIONAL BANKS, WITH RATIOS OF LOANS TO CAPITAL, SURPLUS, AND NET DEPOSITS, AND OF CASH TO NET DEPOSITS, FROM 1885 TO 1890.

NEW YORK CITY.				TOTAL UNITED STATES.		
	Loans Millions	Ratios of Loans to Capital, Surplus, and Net Depos- its. Per cent.	Cash to Net Depos- its. Per cent.	Loans Millions	Ratios of Loans to Capital, Surplus, and Net Deposits. Per cent.	Cash to Net Depos- its. Per cent.
Oct. 1, 1885	236.8	62.3	36.8	1301.2	67.7	21.1
Oct. 7, 1886	253.7	71.7	27.1	1443.7	71.9	17.3
Oct. 5, 1887	258.0	70.9	28.0	1580.0	73.8	17.6
Oct. 4, 1888	292.5	69.2	28.1	1674.9	72.1	17.4
Sept. 30, 1889	303.9	72.4	25.1	1805.7	73.2	15.9
Oct. 2, 1890	297.1	71.0	27.8	1970.0	75.1	16.1

¹ The increase in the amount of freight carried and in the total gross earnings of the railroads of the country is shown in the following table, compiled from Poor's *Manual of Railroads for 1891*, pp. v and xiii:

TOTAL TONNAGE AND GROSS EARNINGS OF THE RAILROADS OF THE UNITED STATES, 1886-1890.

Year.	Freight Carried. Tons.	Gross Earnings. Dollars.	Increase over preceding year.	
			Freight Carried. Tons.	Gross Earnings. Dollars.
1886	482,245,254	829,940,836	45,205,155	57,371,953
1887	552,074,752	940,150,702	69,829,498	110,209,866
1888	590,857,353	960,256,270	48,782,601	20,105,568
1889	619,165,630	1,002,926,059	28,308,277	42,669,789
1890	701,344,437	1,097,847,428	82,178,807	94,921,369

growth in the total bank clearings of the country was noticeable and was especially marked in the clearing-houses of the Southern, Western, and Pacific States.¹ The increasing volume of interior trade, which was thus clearly indicated, averaged well in profits and gave to labor steady and remunerative employment. This fact, together with the extraordinary industrial development and the increase in population, added greatly to the wealth and consuming power of the entire country, and led to a demand for commodities which soon overreached the domestic market and was only satisfied by heavy importations of all descriptions of goods.

The total annual value of imports of merchandise into the United States increased from \$577,527,329 in the year 1885 to \$789,310,409 in 1890.² This amazing growth was not confined to any special class of goods, but included commodities of every kind, ranging in variety from capital instruments to articles of luxury.³ The demand for foreign products, which, as already seen, had reached extraordinary proportions because of the increased wealth and population of the country, was further stimulated by British producers who, after the year 1887,

¹ The growth in the amount of bank clearings for the entire country as compared with the clearings outside of New York City was as follows (*The Commercial and Financial Chronicle*, Annual Review for 1891, p. 11):

BANK CLEARINGS IN THE UNITED STATES, 1885-1890. (000 omitted.)

Year.	Total all.	Outside New York,
1885	\$41,474,041	\$13,321,840
1886	49,293,721	15,616,891
1887	51,147,529	17,672,973
1888	49,541,635	18,441,607
1889	56,175,328	20,280,223
1890	60,117,891	22,659,283

² *Statistical Abstract of the United States*, 1894, p. 73.

³ *Ibid.* pp. 228-229.

were aggressively seeking markets abroad and were willing to accept foreign securities in payment for their goods.¹ On the other hand, because of the growth in wealth and population of the United States, a larger percentage of domestic products was consumed at home.² The exportation of grain from India and Argentina was also beginning at this time to exert a strong influence in the world market, and, together with good yields from European harvests, lowered the price of cereals at Liverpool. The quantity of American agricultural products which were available for export was, therefore, lessened in value.³ The result was that the advance in value of our exports, not only to Great Britain but to all other countries, failed to keep pace with the rapid increase in the value of our imports. During the year 1887 the excess of exports over imports of merchandise amounted, in round numbers, to only twenty-three million dollars, while the imports of gold exceeded exports by thirty-three million dollars, thus leaving a trade balance against the United States of about ten million dollars. In the following year imports of gold and merchandise exceeded exports by over sixty-three million dollars.⁴ During the year 1889 imports of merchandise also were over two million dollars greater in value than exports.⁵

During these same years the rapid industrial develop-

¹ On account of these easy conditions of payment, British goods found a favorable market in this country, the annual purchases from the United Kingdom growing in value from \$136,701,780 in 1885 to \$186,488,956 in 1890. *Statistical Abstract of the United States*, 1894, p. 81.

² In 1880 only 17 per cent. of the total value of our agricultural products were retained for domestic consumption; in 1889, over 27 per cent. were consumed at home. In 1880 our consumption of domestic merchandise, other than manufactures, was slightly more than 12 per cent. in value of our total production; in 1889 we consumed 19 per cent. of the total value of domestic merchandise produced. *Statistical Abstract of the United States*, 1894, p. 157.

³ A. D. Noyes, *Thirty Years of American Finance*, pp. 121-122.

⁴ *Statistical Abstract of the United States*, 1894, pp. 51, 73.

⁵ *Ibid.* p. 73.

ment in the United States, as already pointed out, had called for the investment of an immense amount of capital. This capital was obtained by the flotation of an unusually large volume of securities. The railroad companies in carrying out their extensive construction projects during the five years 1886-90 increased their total indebtedness about two and one half billion dollars, and almost the whole of this extraordinary sum was funded in the shape of stocks and bonds.¹ The annual listing of new issues of bonds on the New York Stock Exchange, the greater part of which were offered by the railroads, was almost 100 per cent. greater in value in the year 1890 than in 1885. During the same time the annual listing of new stock issues increased in value over 900 per cent. The value of both the old and the new issues listed during these years was as follows:²

LISTINGS ON THE NEW YORK STOCK EXCHANGE, 1885-1890.

	BONDS.		STOCKS.	
	New Issues.	Total Old and New Issues.	New Issues.	Total Old and New Issues.
1885	\$103,884,000	\$197,259,000	\$17,783,116	\$56,913,116
1886	81,641,000	238,097,690	54,006,350	329,469,350
1887	180,386,000	343,477,321	48,726,791	270,053,550
1888	261,989,631	511,002,218	62,408,357	248,228,275
1889	206,684,000	389,720,000	69,721,717	259,649,774
1890	198,158,850	684,867,879	164,461,729	437,992,330

Commencing with the year 1887 there was also a strong movement toward the organization of industrial plants into joint-stock corporations. More than \$500,000,000 in stocks and bonds were issued by these combinations during the four years 1887-90.³ In street-railway, gas, electric

¹ Poor's *Manual of Railroads*, 1891, p. iv.

² *The Commercial and Financial Chronicle*, Financial Review for 1891, p. 12.

³ *Industrial Combinations in the United States*. By Luther Conant, Jr. *Publications of the American Statistical Association*, vol. vii (March, 1901) p. 12.

lighting, and Western land development companies, and similar fields of joint-stock enterprise, the promoter was equally active.) Unfortunately, no statistics are available by means of which an accurate estimate might be made of the total amount of securities issued in the United States during the period 1886-90, but from this activity in smaller undertakings, together with the flotations of the railroads and large industrial corporations, some conception may be had of the immense and unusual volume of stocks and bonds offered to home and foreign investors.

The amount of these securities purchased abroad is even more difficult to estimate than the total sum issued. From the course of international trade, as already pointed out, it was clear, however, that Americans were importing more goods than they could immediately pay for, and were settling their balances by turning over to their foreign creditors evidences of debt in the shape of stocks and bonds. The fact of a constantly decreasing surplus of merchandise exports over imports after the year 1886, which finally resulted in an excess of imports during the two years 1888-89, plainly indicated that millions of dollars in American securities, not only of the new issues but of the old listings of the stock exchanges, were being absorbed by the British and European markets. The net importation of over \$33,000,000 in gold during the year 1887 in the face of a balance of more than \$23,000,000 in merchandise exports in favor of the United States, also showed that in addition to the negotiation of heavy loans and the flotation of securities abroad, a large amount of our stocks and bonds were being quietly bought by foreign investors in the open market. As a matter of fact, conditions in Great Britain were especially favorable for the placing of new loans and companies. The improvement in trade and business there had inspired the country with confidence, and capital was obtainable on very easy terms. For this reason and also because the bulk of the increased

imports into the United States during the years 1887-90 came from the United Kingdom, England became our greatest creditor. A large part of our new railroad issues were floated in that country, more than \$100,000,000 in the stocks and bonds of American railroads being taken in the London market during the three years 1887-89.¹ British capital also freely entered into other American industrial undertakings and many enterprises of strictly British origin were incorporated to carry on operations in this country, including even joint-stock companies to acquire breweries in the United States and to exploit the newly opened districts of the West and South. The international trade situation, in short, throughout the entire period beginning with the year 1886, and ending with 1890, plainly indicated, (1) that this country was purchasing larger quantities of goods abroad, especially in Great Britain, than it could immediately pay for, and foreign creditors were accepting payment in American securities; (2) that large loans were being negotiated by American capitalists in British and Continental markets; and (3) that European and English investors were not drawing upon their interest accounts, but were investing their balances here as fast as they accrued.

During this period there was another movement in evidence, however, which in its final consequences was even more far-reaching than the growth in our indebtedness abroad. The large increase in our imports added greatly to the receipts of the Government from customs duties. At the same time the increased consumption of domestic products arising from our expansion in wealth and population was productive of larger revenues from internal taxes.² The exploitation of the Northwest and

¹ *The London Economist*, Commercial History and Review of the Years 1887-89.

² The receipts from internal revenue taxes increased from \$116,805,936 in 1886 to \$142,606,705 in 1890, the receipts from import duties from

Southwest also augmented the receipts from the sale of public lands. A combined result soon became apparent in the accumulation of an unprecedented Treasury surplus, which finally assumed such proportions as to impede, by the absorption of the circulating medium of the country, the movement of crops and other commercial and financial operations.¹

The practical remedy for the situation was, of course, the reduction of revenue duties to a point where the receipts from taxation would correspond to the expenses of the Government. It was impossible to adopt this policy, however, because of a protectionist majority in the Senate. In order, therefore, to get rid of the constantly accumulating revenue and to prevent the recurring stringency in the money market, the Secretaries of the Treasury, during the three years 1887-89, were forced to purchase Government bonds, both at par and at a premium, in the open market, to pay in advance the interest charges on Government obligations, and to deposit Government funds with banks.²

But these measures of relief were unavailing, and the disposal of the surplus revenue soon became a question of practical politics. In his annual reports to Congress,

\$181,471,939 in 1886 to \$229,668,584 in 1890. *Statistical Abstract of the United States*, 1894, p. 20.

¹ The surplus remaining at the close of each fiscal year after all the obligations of the government had been paid, exclusive of such funds as that for the redemption of the national bank notes, appeared as follows in the Finance Reports, 1886-90.

1886,	\$103,471,097
1887,	80,023,570
1888,	119,612,116
1889,	105,053,443
1890,	37,239,762
	\$445,399,988

² As a result of this policy the total interest-bearing debt of the United States was decreased from \$1,146,014,100 in 1886 to \$725,393,110 in 1890. The cost to the national treasury in premium on bonds amounted to almost \$46,000,000. *Report of the Secretary of the Treasury*, 1890, pp. xevi, cxxiii.

Secretary Fairchild, of the first Cleveland administration, repeatedly recommended a reduction in the customs duties.¹ As a manifesto of party policy in the approaching campaign, the Democratic majority in the House had already passed the Mills Bill, providing for a substantial reduction in the tariff schedules. Shortly afterwards the Republicans in the Senate squarely met the issue by enacting a high tariff measure and announcing their determination to repeal the internal revenue taxes rather than sacrifice the protective principle.² During the ensuing canvass, this pronounced position on the tariff question was supplemented by the promises of the Democratic and Republican party platforms relative to the administration of the Government finances, the former supporting a policy of retrenchment and economy, the latter advocating a more extended range of Federal expenditure.

The outcome was the election of President Harrison. The Republican leaders, interpreting his success as a popular approval of their attitude, at once proceeded to put their expressed policy into practical operation. The McKinley tariff law which raised the average rate of duty to 48.71 per cent. and placed sugar and other productive sources of customs receipts on the free list, and which was framed with the object of doing away with the surplus revenue, was passed by Congress and became law on October 1, 1890. At the same time the preliminary steps were taken to dispose of the existing Treasury surplus and any further excess, by means of an increase in congressional appropriations. President Harrison, in his first annual message, urged additional appropriations not only for the navy and for coast defense, but even for the Pension Department and for river and harbor improvements. Congress was not slow to respond, and the aggregate appro-

¹ *Report of the Secretary of the Treasury*, 1887, p. xxxi. *Ibid.* 1888, p. xxvii.

² Taussig, *Tariff History of the United States*, pp. 253-254.

priations authorized by the Fiftieth Congress, which held its sessions during the fiscal years 1889-90, were more than \$61,000,000 greater than the appropriations of the preceding Congress.¹

But the triumph of the Republican party in securing the adoption of its program of increased expenditures and an extension of the protective system had not been attained without a costly compromise in the form of the Sherman silver purchase law which was enacted by Congress on July 14, 1890. As a matter of fact, this legislative measure was the direct outcome of a movement for the free coinage of silver which had its origin more than twelve years prior to the year 1890, and which, by means of constant agitation, had exerted a strong influence upon the course of our financial affairs. In order, therefore, to obtain a complete understanding of the financial situation in the United States on the eve of the panic of 1890 as well as to secure a proper setting for the continuance of our account, it is necessary to review briefly the silver agitation and the effect of our silver legislation upon trade and industry during the period 1878-90. As a preliminary step to a conception of the true significance of the silver movement, a glance must also be taken at the position of silver both as a commodity in the international market and as a money material in the financial systems of other countries at the time the United States was entering upon its first experiment in silver legislation.

¹ *Report of the Secretary of the Treasury*, 1891, p. cxii.

CHAPTER II

THE SILVER MOVEMENT IN THE UNITED STATES

The Fall in the Value of Silver after 1872. — The Act of 1878. — Operation of the Act of 1878. — Net Result of the Act of 1878. — Causes of the Act of 1890. — Provisions of the Act of 1890. — Significance of the Act of 1890. — Summary of the Financial Situation in the United States in the Autumn of 1890.

THE middle of the nineteenth century was marked by the discovery of gold in California and Australia, and during the twenty-five years subsequent to the year 1850 there was an extraordinary increase in the world's production of that precious metal, the output from the mines during this period being equal in value to the total amount previously extracted from the time of the discovery of America by Columbus. The remarkable addition to the gold-supply during these years was also accompanied by a steady growth in the production of silver. The percentage of increase in the amount of silver annually given forth by the mines ranged from 25 to 50 per cent in the years immediately following 1850, and went still higher at the close of the period, on account of the uncovering of rich deposits in the State of Nevada.¹

Since gold possesses greater value in smaller bulk and is consequently much more desirable for monetary purposes than silver, the leading commercial nations of the world soon began to avail themselves of the opportunity offered by the increased gold-supply to add to their stocks of gold and to substitute gold for silver in their currency. As

¹ The total amount of gold and silver produced in the world before 1850, and from 1851 to 1875 was as follows:

1493-1850	\$3,314,553,000	\$7,348,450,000
1851-1875	3,317,625,000	1,395,125,000

early as the year 1852 France commenced to displace her silver coins with gold, and during the period 1852-64 she absorbed in this way \$1,163,000,000 in gold and \$345,000,000 in silver disappeared from her circulation. The Scandinavian Governments soon adopted a policy similar to that of France, and in 1871 Germany also introduced a gold currency in place of her previous silver currency. By the year 1874 more than \$270,000,000 in silver coins had been exchanged by the German Government for gold, and the surplus stock of silver thus created was offered for sale in the open market. Holland during the year 1873 practically adopted the gold standard, and in 1874 France, Belgium, Italy, and Greece, the countries composing the Latin Monetary Union, suspended the free coinage of silver and limited the amount of silver which might be annually coined at the mints of each member of the Union.¹

A large amount of silver was thus thrown upon the market by the united action of commercial nations in displacing their silver currency with gold. This surplus was also enlarged by the steadily increasing output of the silver-mines. The resultant excess in the silver-supply was for a number of years absorbed by India and the East, the amount of silver taken by India alone during the period 1852-75 being estimated at more than one billion dollars. After the close of the Civil War in the United States, however, the exportation of cotton from India was greatly reduced, and at the same time the indebtedness of India in England, through loans negotiated by the Indian Government, was largely increased. Consequently India was not in a position to absorb the large amount of silver that she had done in former years. The outlet for the surplus silver displaced by gold in the currency of European countries was, therefore, to a great extent cut off, and the logical outcome of this large curtailment of demand soon

¹ The gold standard was adopted by Italy in 1883, thus causing a further curtailment of the demand for silver.

made itself evident in a rapid decline in the value of silver. The tendency in this direction was first noticeable after the year 1872, and by 1878 the value of a fine ounce of silver had fallen to \$1.15, or 17 cents below the quotation of six years earlier. Strange as it may seem, however, it was in the face of this situation, when the commercial nations of Europe were discarding their silver currency and when the value of silver in the international market had declined to a point where the bullion in an American silver dollar was worth only 89 cents, that this country entered upon its first experiment in silver legislation by authorizing a large annual increase in the coinage of silver dollars.¹

The possibility of securing an inflation of the currency of the United States by means of the coinage of a cheap silver dollar appealed strongly to those persons who had opposed the resumption of specie payments and who had advocated the continuance of the depreciated legal-tender notes. They eagerly joined forces with the mining and other interests which were peculiarly concerned with maintaining the value of silver, and under the plea that silver had been surreptitiously demonetized by the coinage law of 1873 the agitation for a cheap currency was actively renewed. In December, 1876, a bill for the free coinage of silver was passed by the House of Representatives, but was unfavorably received in the Senate. A similar measure was again passed in the House during November, 1877, by a vote of 163 to 34. In the Senate, however, the free coinage provision was stricken from the bill, and in its place a section was substituted authorizing the Secretary of the Treasury to purchase and coin each month not more than four million nor less than two million dollars' worth of silver bullion. The standard silver dollars coined from this

¹ A complete account of the forces leading to the fall in the value of silver, and the displacement of silver by gold in the currencies of the principal commercial nations after the year 1850, is to be found in J. Laurence Laughlin's *History of Bimetallism in the United States* (New York, 1897, 4th edition), part ii, pp. 109-206.

bullion were to be a "legal tender at their nominal value, for all debts and dues public and private, except when otherwise expressly stipulated in the contract." Silver certificates of denominations not less than ten dollars were also authorized and were to be issued by the Secretary of the Treasury on the deposit of silver dollars authorized by the Act, and such certificates were to be "receivable for customs, taxes, and all public dues." In this amended form the bill was accepted by the House, and was finally enacted by Congress on February 28, 1878, over President Hayes's veto.¹

Under the operation of the Act of 1878 each Secretary of the Treasury practically kept within the minimum requirements of the law and did not purchase more than two million dollars' worth of silver per month. The amount of standard silver dollar pieces that could be coined from the silver bullion purchased by two million dollars' worth of legal-tender paper prior to the resumption of specie payments on January 1, 1879, and by gold after that date, varied of course with the price of silver bullion, and averaged about two and one-half million silver dollar pieces per month, or from twenty-seven to thirty-four million standard silver dollars annually. The problem that confronted the Treasury officials was to inject this amount of silver dollars into the permanent circulation of the country. It was obvious that if silver were permitted to accumulate in Government receipts from customs and internal revenue taxes, it would displace a corresponding amount of gold. At the same time, the Treasury gold reserve would soon be exhausted by the payment of Government obligations and the currency of the country reduced to a depreciated silver basis.

¹ A detailed discussion of this enactment, as well as subsequent silver legislation, is to be found in the *Report of the Monetary Commission*, 1898; F. W. Taussig's *The Silver Situation in the United States* (New York, 1893); A. D. Noyes's *Thirty Years of American Finance* (New York, 1898); and J. Laurence Laughlin's *History of Bimetallism in the United States*, referred to above.

During the two years immediately following the passage of the Act, almost all the silver coined by the Government was piled up in the Treasury. The silver certificates issued in payment for bullion were passed from bank to bank until they found their way into the receipts of the Government.¹ Only a few stayed in circulation. At the close of the fiscal year 1879, of the thirty-six million dollars which had been coined, twenty-eight million remained in the Treasury unrepresented by silver certificates in circulation. The danger of this situation was enhanced during the early half of the year 1880 by a further growth in the Treasury holdings of silver accompanied by an even faster decline in its stock of gold. Fortunately, however, the existing tension was relieved during the latter part of 1880 and the two years, 1881-82, by a change in the course of trade and industry following the resumption of specie payments. Railroad construction was pushed forward on an immense scale, the crops were good, interior trade was active, and there were heavy importations of gold from abroad followed by an inflow of gold into the Treasury. Under these conditions there was a large demand for currency in small denominations for use in retail transactions and in "moving the crops." Secretary Sherman quickly took advantage of the situation by issuing a circular in September, 1880, offering drafts on the sub-treasuries in the West and South, payable in silver certificates, in return for gold deposited at the New York Sub-Treasury. This policy involved the expense of transporting silver dollars from one section of the country to another, but through its operation a large amount of silver was put into circulation, especially from the sub-treasuries at St. Louis and New Orleans.

But the active period in industry and trade during the

¹ A significant indication of the distrust of the new silver issues in banking circles was soon made evident by the action of the New York Clearing-House Association on November 12, 1878, when the New York Sub-Treasury was admitted to membership. On that occasion a resolution was passed prohibiting the payment of balances in silver certificates or silver dollars.

period 1880-82 was succeeded by the usual reactionary movement. The year 1883 was one of steadily increasing depression in financial and commercial affairs. The number of small business transactions, and especially those requiring the use of money, diminished, the currency of the country became redundant, a large amount of silver accumulated in the banks, and by the banks was worked off on the Treasury in the payment of customs duties. At the same time the Secretary of the Treasury was required, under the provisions of the Act of 1878, arbitrarily to coin into silver dollars and attempt to put into circulation two million dollars' worth of silver bullion each month, irrespective of the demands of business and trade. The logical outcome of this course of affairs was soon reached. Since the banks hoarded the gold which came into their possession and poured their silver into the Treasury by way of the customs revenue, the opportunity of replenishing the Treasury holdings of gold was constantly being diminished. On the other hand a steady drain upon the stock of gold already accumulated in the Treasury was caused by the annual purchase of thirty million dollars' worth of silver bullion, by the payment of Government expenditures, and by the redemption of the public debt and the demand obligations of the Government in the form of legal-tender paper. A large supply of silver was, therefore, rapidly accumulated by the Treasury, and at the same time its gold reserves were steadily reduced. The fear was soon openly expressed that the Government would be forced to suspend gold payments, and the alarming nature of the situation was intensified by the action of the Sub-Treasurer in New York City, who, on February 21, 1884, in a letter to the manager of the Clearing-House Association, intimated that it might be necessary to use silver in payment of Government balances. This ill-judged hint had the effect of spreading the existing alarm to foreign investors in American securities, who at once returned large blocks of

their holdings to be sold on the American market, with the result that gold was exported from the country and an additional demand made upon the Treasury reserves of that metal.¹ The climax was finally reached in the financial crisis of May, 1884, which, as already seen, was succeeded by a period of restriction in production and of general stagnation in industry and trade that extended through the years 1884-86.² Under these conditions there was a further accumulation of silver in the Treasury attended by a decline in its holdings of gold. The gold reserve fell to 120 million dollars in November, 1884, and even lower in January, 1885. It was, therefore, clearly evident that immediate action was necessary if the drain of gold from the Treasury was to be stopped and the country saved from a depreciated silver currency.

On being confronted with this serious situation, the first step taken by the Treasury officials was directed toward the maintenance of the existing stock of gold. Previous to the year 1884 the large surplus revenue had made it possible to pay off many millions of the public debt. During September of that year, however, this policy was discontinued and none of the 3 per cent. bonds (then redeemable at the pleasure of the Government) were called in for redemption until December, 1885. For more than a year the surplus revenue, instead of being employed in the reduction of the national debt, was used to buy silver, and the silver dollars coined from the bullion thus purchased were hoarded in the Treasury and withheld from the already redundant circulation of the country. During this period efforts were also made to encourage gold receipts, and the banks gave moral as well as substantial support to the exertions of the Government in this direction by turning over to the Secretary of the Treasury in July,

¹ During the fiscal year 1884 the excess of exports over imports of gold amounted to \$18,250,640.

² See p. 1 *et seq.*

1885, \$5,915,000 of gold in return for fractional silver. At the same time they announced their intention of furnishing additional supplies of gold to the Government should it be deemed necessary.

On the other hand, new devices were invented to get silver into circulation. Since the issue of national bank notes of smaller denominations than five dollars had been prohibited by the Resumption Act of 1879, the currency in one or two dollar denominations at this time consisted almost exclusively of United States notes, or greenbacks. After June, 1885, however, the issue of these greenbacks in denominations less than five dollars was stopped, and when the soiled and torn greenbacks of small denominations were returned to the Treasury for redemption, they were withdrawn from circulation and replaced by greenbacks of large denominations. This process of retirement was slow, but by the year 1886 such a vacuum had been created that, under the pressure of a demand for currency of small denominations, Congress was prevailed upon to authorize the issue of one, two, and five dollar silver certificates. Permanent circulation was thus secured for a large amount of silver, which took the place of the small greenbacks previously retired by the Treasury officials.

These efforts of the Treasury to maintain its gold reserve and provide an outlet for silver were supplemented by the influence of a fortunate change in the course of business after the year 1885. The period 1886-90, as already pointed out, was one of prosperity, marked by a constantly increasing volume of importations and the resultant accumulation, largely from customs duties, of an unprecedented surplus revenue.¹ This surplus was used in paying off the national debt, and, as a consequence, the amount of Government bonds available for the purpose of guaranteeing the issue of national bank notes was rapidly reduced. At the same time, the rate of discount

¹ See footnote 1, p. 13.

in the loan market became higher as the result of better business conditions, and the banks soon found it much more profitable to lend their funds directly than to invest in Government bonds to be used as a basis for the issue of notes. They, therefore, began to cut down their note issues, and by 1890 the amount of national bank notes outstanding was \$120,000,000 less than in the year 1886.¹ As the notes thus retired were of small denominations a further opening was made for the use of silver certificates. Moreover, the revival in business and industry after the year 1885, owing to the greater rapidity and extent of domestic trade, especially in the newly exploited regions of the West and South, brought about an increasing demand for the use of silver in the payment of wages and in other small transactions.

Under these conditions the efforts of the Treasury officials to push silver into circulation were attended with good results. During the five years 1886-90 the Treasury's accumulations of silver decreased to a point where they no longer caused anxiety. Practically all of the silver coined during the two years 1889-90 passed into circulation. In the autumn of 1885 there was also an upward movement in the gold reserve, and by the end of that year confidence in the ability of the Government to maintain gold payments had been restored. Consequently during the subsequent period of five years there was a steady

¹ The following figures, taken from Taussig's *The Silver Situation in the United States*, show the amount of national bank notes outstanding (in millions of dollars) during the six years 1885-1890:

Year.	Total Outstanding.	Net Amount (less lawful money deposited for redemption).
1885	315.8	276.3
1886	301.5	219.7
1887	272.0	169.2
1888	239.4	152.4
1889	202.0	130.2
1890	179.8	125.0

inflow of gold into the Treasury, and the gold reserve was ample.

The danger of a suspension of gold payments was thus averted. The outcome, however, was by no means satisfactory. Only by the employment of artificial devices, such as the substitution of one and two dollar silver certificates for the greenbacks of small denominations, had the Treasury officials been able to keep silver in circulation and maintain the gold standard during the prosperous period 1886-90. Even then their efforts had been successful only because they had control of a large surplus revenue, which made it possible to hold the silver dollars and certificates in the Treasury vaults when the silver circulation of the country was redundant. This surplus during the good years 1886-90 aided the Treasury indirectly by creating an outlet for the small silver certificates on account of the payment of the public debt and the consequent reduction in the national bank note circulation. So far as the Treasury was concerned, the existence of a surplus revenue during almost the entire operation of the Act of 1878 was one of the most favorable factors in the situation. In the event of a depression of business such as marked the two years 1884-85, or the adoption of an ill-considered tariff or fiscal policy by the Government which would radically cut down or cause a deficit in Government revenues, there was every indication that silver would again accumulate in the Treasury and thus endanger the maintenance of the gold standard of payments.

The policy adopted by the Treasury of retiring United States notes, or greenbacks, of small denominations had without doubt resulted in creating a vacuum in the circulation which insured a permanent place for small silver certificates. But the void thus created could only make room for a certain amount of silver, dependent upon the action of the national banks in reducing their note issues.

If the Treasury officials transgressed this limitation a redundancy of silver in circulation would be the result. Moreover, in its ultimate possibilities, the policy of retiring the one and two dollar legal-tender notes and reissuing them in the form of greenbacks of large denominations was, if anything, more dangerous than the effect of the immediate accumulation of a large amount of silver dollars or silver certificates in the Treasury. The greenbacks of small denominations had hitherto found lodgment in the hands of the people, had been used continually by them in the retail transactions of everyday life, and consequently had been returned for redemption only when they became too soiled or damaged to be of any further service. The greenbacks of large denominations which were issued in their place were now held by the banks and were quickly available, should an occasion present itself, for the purpose of drawing off gold from the Treasury.

The net result, therefore, of the operation of the Act of 1878 was not only to increase the demand obligations of the Government payable in gold to the extent of \$378,000,-000 ¹ (the amount of silver dollars coined), but also, by

¹ AMOUNT, COST, AND AVERAGE PRICE OF SILVER PURCHASED UNDER THE ACT OF FEBRUARY 28, 1878, AND COINAGE OF SILVER DOLLARS THEREFROM:

Fiscal Years.	Fine Ounces.	Cost	Average Price per Fine Ounce	Coinage of Silver Dollars.
1878	10,809,350	\$13,023,268	\$1.20	\$8,573,500
1879	19,248,086	21,593,642	1.12	27,227,500
1880	22,057,862	25,235,081	1.14	27,933,750
1881	19,709,227	22,327,874	1.13	27,637,955
1882	21,190,200	24,054,480	1.13	27,772,075
1883	22,889,241	25,577,327	1.11	28,111,119
1884	21,922,951	24,378,383	1.11	28,099,930
1885	21,791,171	23,747,460	1.08	28,528,552
1886	22,690,652	23,448,960	1.03	29,838,905
1887	26,490,008	25,988,620	.98	33,266,831
1888	25,386,125	24,237,553	.95	32,718,673
1889	26,468,861	24,717,853	.93	33,793,860
1890	27,820,900	26,899,326	.96	35,923,816
1891	2,797,379	3,049,426	1.09	8,740,327
	291,272,018	\$308,279,260	\$1.05	\$378,166,793

the substitution of greenbacks of large denominations for small greenbacks, the way was opened for quickly depleting the Treasury of its gold reserve, upon the maintenance of which the payment of its obligations depended. It is true that the silver dollars and certificates were not directly redeemable in gold, but, as a matter of fact, when the silver in circulation became redundant, or when apprehension existed as to the maintenance of the gold standard, silver dollars and certificates, as already seen, were poured into the Treasury through the customs receipts, a corresponding inflow of gold was cut off, and a process of redemption thus carried out which was as effective in its operations as if silver had been directly presented at the Treasury and gold received for it. To the ever-present possibility of gold being thus displaced in the Government receipts by silver was now added the further danger that gold might be drawn from the Treasury by means of the greenbacks of large denominations which were carried by the banks in their reserves. The maintenance of gold payments was therefore imperiled by the possibility of the Treasury gold reserve being lost in two ways. On the one hand, the additions to the Treasury supply of gold through the payment of import duties were in danger of being cut off; on the other hand, by making the large greenbacks quickly available to the banks, an opportunity was afforded of draining the Treasury of its stock of gold already accumulated. Under these conditions it was clearly evident that the ability of the Treasury to continue gold payments during a period of business depression or lack of confidence had been greatly impaired.

But the success of the Treasury in keeping silver in circulation and warding off dangers to the standard during the period 1886-90 was interpreted by the advocates of the free coinage of silver to mean that the Government could with impunity greatly increase its silver obligations. The agrarian communities of the West and Northwest,

which desired a larger quantity of money in circulation, and the silver-mining states west of the Mississippi, which sought to check the constant fall in the value of silver, had never been satisfied with the Act of 1878, and had incessantly agitated the question of the free coinage of silver. Unfortunately for the country, the political complexion of Congress, after the presidential election of 1888, enabled the representatives from these Western States to dominate the situation.

In the election of that year the Republican candidate, Benjamin Harrison, secured a majority in the electoral college. President Cleveland, however, was given a larger number of popular votes than his successful opponent. Moreover, his administration of the civil service had lost him many supporters, and political intrigue in New York had deprived the Democratic party of the electoral vote of that state. Under these conditions, it could scarcely be said that the election of President Harrison was a decisive indorsement of the issues he advocated. Consequently, when the Republican leaders declared that the result of the election was a popular verdict in favor of protection and prepared to extend the protective principle by framing the McKinley tariff law, they encountered not only distrust in a large wing of their own party, but at the same time were confronted with a practical difficulty of vital importance within Congress itself. The Republican majority in the House at the opening of the 51st Congress was found to consist of only eight votes, including Western Representatives who were lukewarm, if not hostile on the tariff question. In the Senate the situation from a Republican standpoint was even more unfavorable. The party majority in that body consisted of only eight Senators, and without the support of the members from the silver-producing states of the West, who were by no means favorably disposed to an extension of the protective system, the Republicans would actually be in the minority. Under

these conditions it was at once evident that some expedient must be devised to placate the silver wing of the party, if the proposed tariff legislation was to be carried to a successful conclusion.

At this juncture Mr. Windom, who was then Secretary of the Treasury, and who was considerably more of a politician than a financier, inaugurated a course of procedure which peculiarly emphasized his talents in the way of political expediency. In his first annual letter to Congress he recommended that the Government should buy silver at the market price, without any assignable limit, and pay for it in notes of the United States, which were to be redeemable in silver bullion or in silver dollars or gold at the option of the Government or the holders of the notes respectively.

The motive which prompted this ill-considered recommendation was at once apparent. It was evidently intended to placate the silver Senators and Representatives, and to secure their support for the McKinley Bill. Every prudent congressman shrank from the effect of such an unlimited inflation of the currency. But practically all that could be done was to limit as far as possible the injurious features of this political compromise which had been devised by the Administration. On June 5, 1890, the House passed a bill restricting the issue of notes to \$4,500,000 monthly and making them "redeemable in coin, on demand." The Senate, however, promptly turned down this measure and enacted a flat free-coinage bill which it returned to the House. On the same day the McKinley tariff law reached the Senate and that body postponed consideration of the tariff measure until final action had been taken on its free-coinage bill. The situation was awkward for the Administration, as the majority vote in the Senate included, with two exceptions, every Senator from the silver-producing states of the West which Secretary Windom was endeavoring to conciliate. The

House, however, refused to accept the Senate substitute,¹ and, as is usual in such cases, the Silver Bill was sent to a conference committee of both branches of Congress. After a week of anxiety among the promoters of the Tariff Bill, an agreement was reached by the Senate and House. In this amended form the bill received the approval of President Harrison and became law on July 14, 1890.²

Because of the fact that the compromise bill was chiefly the work of Mr. Sherman, it became subsequently known as the "Sherman Act." It provided that the Secretary of the Treasury should purchase 4,500,000 ounces of silver monthly, and directed him to pay for this in legal-tender paper called Treasury notes, which were to be "a legal tender in payment of all debts, public and private, except when otherwise expressly stipulated in the contract," were "receivable for customs, taxes, and all public dues," and when held by any national bank were to be counted as part of its legal reserve. These notes were to be directly redeemable at the Treasury or any sub-treasury "in gold or silver coin" at the discretion of the Secretary of the Treasury, and as a guide to future action a parity clause was added declaring it to be "the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio, or such other ratio as may be provided by law." After July 1, 1891, no more

¹ The statement has been made that the silver law of 1890 was enacted not because the silver faction in the Senate demanded silver legislation in exchange for its vote on the tariff bill, but for the reason that the failure to pass the Sherman Law would have resulted in the enactment of a free-coinage bill. This assertion, however, is not borne out by the facts. When the Senate substituted a free-coinage measure for the House Bill the opportunity was given to pass a free-coinage law, but the House refused. Moreover, the claim that a free-coinage bill would have been passed if the Sherman Law had not been enacted assumes that President Harrison would have approved a free-coinage bill. Noyes, *Thirty Years of American Finance*, pp. 147, 148.

² A summary but complete account of the discussion in Congress during the year 1890, and of the action of the House and Senate relative to the proposed silver legislation, is to be had from an article entitled "The Silver Debate of 1890," by R. F. Hoxie, *The Journal of Political Economy*, vol. i (September, 1893), pp. 535-587.

silver dollars were to be coined than were necessary for the redemption of the Treasury notes. Until that date, 2,000,000 ounces of silver per month were to be coined into standard silver dollars.

In comparison with the Act of 1878, the Sherman Law, therefore, contained two significant features. Although in the first place, it did not repeal but continued the old policy of purchasing silver, yet it made necessary the purchase and maintenance in circulation each year of a larger amount of silver, since the Treasury notes issued under the operation of the Act amounted to about \$50,000,000 annually.¹ In the second place the Treasury notes thus issued were made directly redeemable in coin, and under the further statement that it was "the established policy of the United States" to maintain silver and gold "at a parity with each other," the redemption provisions of the Act of 1890 meant that Treasury notes were to be redeemed in gold as long as the Treasury had any gold in its possession. In addition, therefore, to increasing the almost overwhelming burden of silver obligations already carried by the Government, the Sherman Law made it much more difficult to preserve the integrity of these obligations by providing a direct means of redemption, through the operation of which the gold reserves accumulated by the Government for redemption purposes might be quickly withdrawn from the Treasury.

Thus had the silver movement worked itself out by the latter half of the year 1890. When its probable effect is considered in connection with the contemporary state of

¹ The amount of Treasury notes issued each year under the Act of 1890 was as follows:

Fiscal year, July 1.	Treasury notes issued.
1891	\$50,577,498
1892	51,106,608
1893	45,531,375
1894	8,715,521
	\$155,931,002

international trade and the policy of the Harrison Administration relative to the surplus revenue, it is at once apparent that a precarious future was marked out for the Treasury. To ascertain accurately the nature of the dangerous tendencies at work it may not be amiss briefly to review the salient features of our story up to this time.

The period 1886-90 in the United States, it will be remembered, was marked by a rapid and healthy growth in trade and industrial activity, which called for the flotation of an extraordinary amount of railroad and industrial stocks and bonds. The increasing wealth and population of the country during these same years also led to immense importations of foreign commodities, which were largely paid for in American securities. Through this willingness of our foreign creditors to invest their balances in the United States, we had incurred an unusual amount of indebtedness abroad. This fact in itself possessed no grave elements of danger. Under ordinary conditions, owing to the growing wealth and resources of the country, our indebtedness abroad would have soon adjusted itself through the mechanism of international trade. It was at this point, however, that other factors entered in to cause serious apprehension.

The revenues of the Government had been yielding an excess over expenditures since 1883, and because of the increased customs receipts arising from our heavy importations, this surplus reached extraordinary proportions during the period 1886-90. After the election of 1888 the Harrison Administration attempted to get rid of it in two ways: first, by inaugurating a policy of increased expenditures, and, second, by enacting the McKinley Tariff Law, one of the objects of which was to cut down Government receipts from customs. But the silver wing of the Republican party, which held the balance of power in Congress, was at this time agitating the question of further silver legislation, and, in order to pass the McKinley Law, it was

first necessary to reach an agreement with this faction. Notwithstanding the fact that under the operation of the Silver Act of 1878 the Treasury had experienced difficulty in maintaining gold payments, the protectionist leaders, in return for the passage of the McKinley Bill, gave their support to the enactment of the Sherman Silver Law. This measure not only added a large annual increment to the silver obligations of the Government, but also provided a direct means of redemption for the Treasury notes which it authorized.

The dangerous tendency of this tariff and financial legislation, considered in connection with the existing silver situation, the policy of increased Government expenditures, and the fact of our indebtedness abroad, can scarcely be overdrawn. The Government receipts were to be reduced by the McKinley Law, and, at the same time, the funds already held by the Treasury were to be dissipated by means of heavy expenditures. In the face of this rapid reduction of Government resources, the demand obligations of the Government were to be increased \$50,000,000 annually, at a time when the Treasury was laboring under the burden of silver obligations placed upon it by the Act of 1878.

Such was the fiscal policy inaugurated by the Harrison Administration, and as a result of its adoption, it was evident that three ways had been thrown open by means of which the country might be subjected to a financial panic or acute crisis. In the first place, a shock to credit abroad might lead to the return of American securities held by foreign investors. If our foreign creditors employed this means of liquidation to any considerable extent, gold would flow out of the country in payment of our indebtedness abroad, a drain upon the Treasury reserves would be threatened, or actually occur, and would be followed by lack of confidence at home in the Treasury's ability to maintain gold payments. In the second place, the same state of affairs

might result from an adverse change in the course of trade and industry attended by a falling-off in Government receipts from customs and internal revenue taxes. In this event the Treasury gold receipts might be reduced to a point where the preservation of the gold reserve would be endangered. Finally, through a redundancy of silver in circulation, the customs revenue might be made up of an increasing percentage of silver currency which would displace an equal amount of gold, as had happened under the operation of the Act of 1878. If the payments to the Government in silver continued to increase, especially under a policy of increased Government expenditure, apprehension would be felt relative to the ability of the Treasury to make gold payments. As a consequence there would be a further inflow of silver into the customs. Gold would probably be hoarded. The Treasury stock of that metal would also be rapidly depleted by the use of the large greenbacks held by the banks and a financial crisis made imminent. While the condition of affairs in 1890 did not give reason to believe that any one or all of these dangerous tendencies were immediately threatening, at the same time the existing state of affairs made their occurrence possible. They were all within the range of possibility, and might operate singly or in combination.

This, in brief, during the autumn of 1890, was the precarious situation in the United States which had been worked out by the play of various industrial, financial, and political forces during the preceding seven years. With this state of affairs before us, we may now profitably turn aside to glance at the industrial and financial developments abroad during the same period, for the purpose of ascertaining their possible influence upon subsequent events in this country.

CHAPTER III

GROWTH OF SPECULATION IN GREAT BRITAIN AND BRITISH GAMBLING IN ARGENTINA

Depression in British Trade and Industry, 1884-1886. — The Return of Confidence and the Rapid Extension of Investments, 1887-1890. — Outgrowth of Speculation. — The Joint-Stock Company Mania. — The Combination of Breweries and the Organization of Trust and Debenture Companies. — Chilean Nitrate Companies and Australian Land Mortgage and Financial Flotations. — South African Gold-Mining and Diamond Ventures. — The Turn of the Speculative Movement toward Argentina. — The Boom in Argentina Land Values. — Absorption of Cédulas, or Land Mortgage Bonds, by European Investors. — Excessive Issue of Argentine Public Loans. — The Suspension of Specie Payments and the Evil Effects of a Depreciated and Inconvertible Paper Currency. — Total Argentina Liabilities Abroad in 1890. — British Capital Commitments in Argentina. — Total Capital Commitments in Great Britain during the Period 1887-1890. — The Expansion of Credit Transactions and the Precarious Financial Situation in Great Britain in 1890.

In Great Britain, during the seven years preceding the panic of 1890, the trade and industrial situation, although differing in detail, was practically identical in its broader aspect with developments in the United States during the same period. The growing competition of Germany and other nations for the trade both of British and of neutral markets, the high tariffs, bounties, and other restrictive features of the commercial policy of foreign governments, together with a falling-off in the demand for commodities owing to the depressed conditions in other countries, had limited the outlet for British goods during the four years 1883-86 and brought about a sharp decline in the foreign trade of the United Kingdom.¹ The immediate result was a large over-production in many lines of British industry arising from the failure to adjust the supply of goods to the restricted demand. This excess of supply was soon fol-

¹ The falling-off in the foreign trade of Great Britain during the period 1883-86 may be quickly seen from the following table showing the

lowed by a drop in prices and a downward tendency in profits. As a consequence, efforts were made to curtail production. Because of the competition of vessel-owners for cargoes, which was intensified by the decline in British commerce, ocean freight rates during the four years 1883-86 were reduced to a point where they were unremunerative. Ship-building and its allied industries were, therefore, discouraged. At the same time lessened activity was evident in all other branches of industry. Mines were unworked, iron furnaces went out of blast, and much industrial machinery was thrown out of employment. Internal trade decreased, and the traffic receipts of the railroads were greatly reduced.¹ The consequent depression in business and industry during the period 1884-86 affected adversely all classes of the population. A considerable number of laborers were wholly or partially deprived of work, their wages or purchasing power cut down, and another factor added to those which had already caused a sharp decline in the demand for commodities. Prices steadily moved downwards, and profits were reduced to a minimum. Obviously, under these conditions investors were exceedingly cautious in entering into industrial undertakings of any kind, and the new commitments of capital imports and exports of merchandise. *Statistical Abstract of the United Kingdom*, 1890, p. 47.

VALUE OF THE TOTAL IMPORTS AND EXPORTS OF MERCHANDISE
INTO AND FROM THE UNITED KINGDOM

Years.	Imports.	Exports.	Total of Imports and Exports.
	£	£	£
1883	426,891,579	305,437,070	732,328,649
1884	390,018,569	295,967,583	685,986,152
1885	370,967,955	271,474,308	642,442,263
1886	349,863,472	268,959,463	618,882,935

¹ The gross receipts of the railroads in the United Kingdom from merchandise traffic decreased from £38,701,319 in 1883 to £36,370,439 in 1886. *Statistical Abstract of the United Kingdom*, 1890, p. 179.

were small. Funds were allowed to accumulate in the banks until more attractive prospects for their investment were discovered.¹

This state of affairs prevailed until the latter half of the year 1886, when indications of a trade revival grew gradually more and more evident. This upward tendency, however, was spasmodic and uncertain, and failed to make itself felt in many important branches of industry. Not until the following year, when British trade and industry received a direct impulse from the United States, was a sustained movement toward more prosperous conditions inaugurated.

As a result of the extensive railroad building and the industrial revival in the United States during the year 1887, an unusual demand was made upon Great Britain for iron and steel products, woolen goods, and all other commodities usually purchased by this country. Up to the year 1890, as already seen, the amount of British goods thus absorbed by the United States steadily increased. During the year 1887 India and the East also took a large amount of goods from Great Britain and continued to buy heavily during the three subsequent years. Moreover, during the period 1887-90 Canada, Australia, South Africa and other British colonies, together with the South American countries, were rapidly building railways and developing their natural resources, and their orders for locomotives, bridges, railroad materials, and capital goods and commodities of all kinds were largely placed in the United Kingdom. Under these conditions prices grew higher, profits were increased, and all branches of British industry experienced a steady and prosperous growth. With the

¹ A full account of the condition of British trade and industry during the period 1875-86, together with a discussion of the causes of the existing depression, is contained in the *Report of the Royal Commission on the Depression of Trade* (6 vols.), 1886. A summary of this report is to be found in the *Journal of the Royal Institute of Bankers*, vol. viii (1887), pp. 84-89. See also *The Economist* (London), *Commercial History*, and *Review* (annual supplements) for the years 1884 and 1885.

resultant increase in foreign trade and ocean freight rates, ship-building was also revived, and through its demand for materials an added impulse was given to the iron and steel trade, coal-mining, and other subsidiary industries.¹ During the four years 1887-90 the internal trade of Great Britain was also active, and railroad traffic and bank-clearings showed a remarkable expansion, the London Clearing-House returns for 1890 being larger than in any previous year in its history.² Wages were good and labor was fully employed. The entire period 1887-90, in brief, was marked by a healthy growth in wealth and prosperity in Great Britain which not only included within its influence all branches of trade and industry but which also affected in a beneficial way all ranks of society.

Under these prosperous conditions there was a quick return of confidence and a rapid extension of investments. The over-cautious spirit displayed by the investing public during the two years 1884-85 entirely disappeared after the year 1886, and was superseded by almost the opposite extreme. Industrial stocks of all descriptions were offered for sale and taken with avidity by the public. New loans offered by foreign governments were eagerly subscribed for and foreign securities were largely accepted in payment for the large amount of goods exported from Great Britain to the United States, South America, the British Colonies, and other countries. During the entire period 1887-90, the volume of capital commitments by the British public

¹ The total value of British exports and imports increased from £618,-822,935 in 1886 to £748,944,115 in 1890. The growth in ship-building during the same period may be seen from the fact that 1185 vessels, with a tonnage of 812,638, were constructed in 1890, as compared with 736 vessels, with a tonnage of 331,328, built in 1886. The total value of coal, pig-iron, and other metals produced in the United Kingdom during 1890 was almost double the amount produced during 1886.

² The amounts cleared at the London Bankers' Clearing-House increased from £5,902,000,000 in 1886 to £7,801,000,000 in 1890. Railroad traffic receipts from merchandise in the United Kingdom increased from £36,370,439 in 1886 to £42,220,382 in 1890.

was thus increased by additions from every available source both at home and abroad.¹

Unfortunately, a large part of these new capital commitments was not placed in safe and conservative undertakings. The steady improvement in trade and industry, in addition to inspiring the country with fresh confidence, had created very favorable conditions for floating new loans and promoting financial and industrial enterprises. Money was plentiful and obtainable from the banks on easy terms.² On account of the prosperous condition of affairs, a considerable percentage of the population, including even the laboring classes, had been able to accumulate savings which they were eager to place in some remunerative investment. Moreover, the successful conversion of the national debt of Great Britain during the year 1888 had produced a considerable decline in the rate of interest on all first-class securities, and had stimulated the appetite of the public for new investments. Parliament also had under consideration a legislative measure for the reform of the Companies Act of 1862. Promoters were eager, therefore, to hurry forward new undertakings, in order to take advantage of the facilities of the existing law.³ Their activity in forming and offering new enterprises to the public was met by an increased power and desire on the part of the public to subscribe for them. The result soon became evident in a departure from the usual standards of investment. The appearance of this tendency was coincident with the revival of trade during the latter half of 1886. During the subsequent period of four years, it developed into a widespread speculative movement which embraced many enterprises of a questionable character.

¹ "Our New Investments in 1890," *The Economist* (London), December 27, 1890, pp. 1627-28.

² The average minimum rate of discount charged by the Bank of England was $3\frac{1}{2}$ per cent for 1887, $3\frac{1}{6}$ for 1888, and $3\frac{1}{2}$ for 1889. During many months of these years the rate dropped as low as 2 per cent.

³ "New Loans and New Companies for 1888," *The Economist* (London), vol. xlv (December 8, 1888).

The first evidences of speculation became manifest in a mania for organizing private business concerns into joint-stock companies. During the year 1886 alone 110 such conversions were made. This movement gained strength during the following year, and by 1888 it had developed into a craze, which continued throughout 1889 and the first seven months of the year 1890. During the entire period 1886-90, 12,068 new joint-stock companies were registered in Great Britain, with a total nominal share capital of more than one billion pounds. The number of companies registered each year, together with their nominal capitalization, was as follows : ¹

COMPANIES REGISTERED IN THE UNITED KINGDOM DURING THE PERIOD 1886-1890.

Years.	Total Number of Companies.	Total Nominal Share Capital.
		£
1886	1,891	145,850,702
1887	2,050	170,172,674
1888	2,550	353,781,594
1889	2,788	236,520,674
1890	2,789	234,563,237
Total	12,068	1,140,888,881

Some of these new companies represented legitimate industrial undertakings. Others were of a more or less uncertain character, and were the outcome of the overconfident and optimistic attitude of promoters. The conversion of private breweries into joint-stock companies was typical of the latter class of ventures. During the four years 1887-90, the activity of promoters in this direction overran all reasonable bounds. New brewery companies were organized, and private concerns which were already doing business in Great Britain were combined into large corporations. Moreover, during the two years 1889-90,

¹ *Statistical Abstract of the United Kingdom*, 1890, p. 183.

the movement was extended to include similar companies which purchased and operated breweries in Canada, the United States, South America, South Africa, and other foreign countries. As a result of these promotions the element of good-will and the prospective earning power of the business in the future were heavily capitalized. Most of the companies, in fact, were floated under conditions of over-capitalization and a large proportion of the stock issued went into the hands of promoters and underwriters and other persons aiding in the organization. Despite this fact, these speculative securities were eagerly taken by the public, and in many cases during the early development of the movement the allotment of stock for sale was over-subscribed. During the entire period 1887-90, more than £100,000,000 worth of brewery stocks was absorbed by British investors and speculators.¹

The speculative movement, however, included companies of a much more doubtful character than the brewery flotations. Millions of pounds were subscribed for a multitude of diverse undertakings, the prospects of which in most cases were decidedly questionable. Companies were even organized to promote, underwrite, and speculate in the stocks of other companies. These concerns were popularly termed "trust and investment companies." Their capital stock was issued in small shares, and the effect of their organization was greatly to encourage speculating and gambling among persons of limited means. Many of them were organized for general speculative purposes, and their power of selecting and acquiring stocks was unrestricted. Others were floated for the purpose of dealing in special securities, such as municipal gas and water companies, Spanish and South American railway issues, or

¹ This estimate is based on the returns given *The London Economist* in its annual reviews of commerce and finance. For a full account of the movement for converting breweries into joint-stock companies, see an article entitled "Brewery Companies as Investments," *The Economist*, vol. xlviii, September 6, 1890, p. 1137.

mining and other stocks. The greater number of these investment companies, however, relied principally for their gains on the promotion and underwriting of new companies. The public was deluded by the issue of prospectuses which contained alluring descriptions of new ventures, and in which reputable business men, peers, and members of Parliament were paraded as directors.¹ This policy during the time of active demand for investments met with large profits, since there seemed to be no limit to the credulity of the public. On the other hand, it was evident that if for any reason there should be a decline in the support of speculators and investors, heavy losses would be encountered, for the reason that the funds of the trust companies would be tied up in a large mass of undigested securities which the public would refuse to absorb.²

Great activity was thus displayed during the period 1887-90 in promoting financial and industrial undertakings of a speculative character, the prospects of which were based upon the future conditions of industry and trade in the United Kingdom and the more advanced commercial nations. The main current of speculation, however, turned toward the backward and newly opened countries of the world, where the risks of investment were undoubtedly greater, but at the same time the hope of reward correspondingly high. During the two years 1887-88, a land boom which had its origin in a silver-mining craze was in progress in Australia. As a result of appeals for support,

¹ "Some of them [members of Parliament] got their living by this participation in new companies. In the directory of joint-stock companies it may be seen that 26 members of the House of Commons were directors in 213 companies; 23 members of the House of Lords were directors in 122 companies, of which 85 pay dividends, 26 have no net income, and 11 were new in January, 1890. One member of the House of Commons estimated that during the three years 1887-89 180 millions had been drawn from the pockets of investors by the bubbles." "The Crisis of 1890," Max Wirth, *Journal of Political Economy*, vol. i (March, 1893), p. 230.

² "New Securities offered in London in 1889," *The Economist*, vol. xlviii (December 14, 1889).

the British public invested large sums in Australian mines. Investment and financial companies were also organized to speculate in Australian real property and mortgages. During the period 1886-90, many new companies of doubtful prospects were also launched in Great Britain for the purpose of exploiting Chilean nitrate deposits. Moreover, mining ventures in foreign countries came in for a large share of speculation.¹ During the five years 1885-89, 1386 companies, showing a nominal capitalization of £181,569,545, were registered in Great Britain for the purpose of exploring and developing mineral lands.² Of this class of flotations gold-mining issues were the most numerous. The volume of gold-mining shares offered for sale and absorbed by the public increased each year. From the accompanying table, showing the geographical distribution of gold-mining ventures registered in Great Britain during the three years 1887-89, it will be seen that Africa supplied

Countries.	1889.		1888.		1887.	
	No. of Cos.	Nominal Capitalization.	No. of Cos.	Nominal Capitalization.	No. of Cos.	Nominal Capitalization.
Britain	58	£3,100,400	79	£5,836,325	63	£3,476,200
Europe	32	2,252,850	45	6,556,070	23	1,736,000
Asia	17	1,913,100	14	1,785,000	9	1,562,511
Africa	145	16,651,975	73	10,533,205	42	4,760,500
N. America	66	9,390,200	84	16,531,000	67	12,298,830
S. America	32	4,658,400	31	6,858,600	13	2,660,000
Australia						
New Zealand	28	3,048,500	39	4,563,200	52	7,508,000
Total	378	41,015,425	365	52,663,400	269	34,002,041

¹ For a more complete discussion of the activity of British speculators in promoting companies to operate in new and undeveloped countries, see "The Crisis of 1890," by Max Wirth, *Journal of Political Economy*, vol. i (March, 1893), pp. 225-26. Also "Speculation in Australia and Effect on England," *The Economist* (London), vol. xlvii (May 5, 1888), pp. 564-65.

² "The Growth of Speculation in Mining Shares," *The Economist* (London), vol. xlviii (January 11, 1890), p. 369.

more than twice as many projects of this character as any other division of the globe.¹

The greater majority of the South African gold-mining companies were floated at high prices by promoters and underwriters who, by a manipulation of the markets in South Africa and London, derived large profits from their sale. The shares were generally quoted at small amounts, usually at less than one pound each, and when the companies were not officially recognized by being listed on the London Stock Exchange, their stocks were offered for sale by outside operators. As in the case of the investment companies, every facility was furnished to persons of small resources to gratify their gambling proclivities. Large amounts of stock were absorbed by the public, and under the stimulus of heavy speculation premiums on shares rose to an unreasonable height, ranging from 50 to 5000 per cent.² During the same years that this gambling in mining shares was in progress, a similar movement, equal in intensity but less widespread in its influence, was also maintained in South African diamond properties.³ Furthermore, in the autumn of 1889, when the public seemed inclined to lessen its commitments in gold-mining and diamond shares until a larger measure of the brilliant promises of the promoters had been brought to fruition, professional operators turned their attention to the flotation of land prospecting and exploration companies. As a consequence, a large portion of the speculative public, in defiance of reason and common sense, followed their lead, and the gambling in African securities continued, but with abated force, during the first half of the year 1890.

¹ *The London Economist*. Unfortunately figures are not available for showing the number of companies of local origin, the shares of which came in for the largest amount of speculation. The above table, although it falls short of giving the true condition of affairs, furnishes sufficient data as to the magnitude of the speculation in African gold-mining stocks.

² "The South African Diamond Industry," *The Economist* (London), vol. xlv (March 10, 1888), p. 10.

³ "African Prospecting Companies," *The Economist* (London), vol. xlvii (October 26, 1889), p. 1538.

But British promoters and speculators did not confine their operations to Africa and Australia. The countries of South and Central America came in for an even greater share of exploitation. Mention has already been made of Chilean nitrate companies. As a result of the policy of British exporters, during the period 1887-90, in accepting payment of trade balances in foreign securities, railroad projects in Uruguay, Chile, Mexico, and Brazil were also largely supported by British capital. The outlay in these countries, however, was insignificant in comparison with British capital commitments in Argentina. As early as the year 1875, the attention of Europe had been attracted by the prospect of securing large profits from the development of the rich natural resources of the River Plate territory. Owing to the unsettled conditions of political affairs in Argentina, however, and the cautious spirit which prevailed among European investors, no decisive steps were taken in that direction until the early eighties, when an extended boom in land values had its inception in the southern provinces of that country.

The boom in land values in Argentina was the direct outcome of the reclamation of large tracts of rich territory from the southern Indian tribes by a series of Government expeditions extending through the years 1876-80.¹ In

¹ At the time of the advent of the Avellinda-Alsine party to power in Argentina in 1876, Indian tribes reigned supreme over the vast areas of territory which extended from the southern boundary of the province of Mendoza to the Straits of Magellan. The Minister of War, Alsine, organized expeditions against them for the purpose of driving them southward and thus preventing their foraging trips into the settled regions of the country. After the death of Alsine in 1878, a regular war was organized against the Indians and those who escaped death or slavery were swept into Patagonia. As the result of this policy, the Government soon found itself in possession of a large extent of territory, for the exploitation of which it desired to attract capital and labor.

An excellent account of this period in the financial history of Argentina is to be found in an article entitled "Argentina — Her Past and Present," by John Proctor, *The Bankers' Magazine* (London), vol. li (March, 1891), pp. 461-65. See also *Spanish American Republics*, Theodore Child (New York, 1891), pp. 326-42.

order to facilitate the occupation of these lands, the Argentine Government offered liberal terms to purchasers. The payment for lands taken up were allowed to extend over a series of years, the title being given on the receipt of a certain sum down. Notes of the purchaser were accepted for the outstanding amount. To provide capital for the development of the land an additional scheme was devised, consisting of a system of National and Provincial Mortgage Banks.¹ These banks acted as intermediaries or agents between landowners wishing to mortgage their property and people who were willing to lend their money on landed security. The landholder who wished to secure a loan deposited his titles at a mortgage bank and the bank made a valuation of his estate, and cedulas or bonds of the bank were then issued to the landowners up to half the value of his property. These bonds carried a certain rate of interest for which the landowner was responsible until his titles were redeemed by an annual rate of amortization of the amount borrowed from the bank. Funds were realized by the landowner through the sale of the bonds or cedulas in the open market. The payment of the interest charges was guaranteed to the purchaser by the banks, and the ultimate redemption of the bonds was guaranteed by the state and provincial governments. Persons who were non-residents, and who had no means of verifying the security of any particular land investment were thus enabled to become lenders on Argentine real estate.²

In outward form, this was a most useful scheme, and cedulas were to all appearances as sound securities of their kind as could have been devised. The system had many serious defects, however, and the sequel showed that its adoption amounted almost to a curse to the country through the stimulus it gave to insane land speculation.

¹ The National Mortgage or Hypothecary Bank was operated by the National Government; the Provincial banks were under the control of the Government of the Province of Buenos Ayres.

² "The Argentine Crisis — Its Development," Henry B. Collander, *The Fortnightly Review*, vol. liv (1899), p. 441.

Persons who could get together a sufficient amount to pay the first installment on the land purchased from the Government, secured their titles, which they then pledged to the mortgage banks for as large an amount as they could obtain. With these funds payments were made to cover further installments on the land as they fell due, until the land could be sold at an enhanced price consequent upon the general rush for land investment. The original purchaser then moved onward and repeated the same operation. As a result, land constantly rose in value, and as no restriction had been placed on the power of the banks to issue cédulas, loans were freely made on a boom basis.

In the second place, the legitimacy of the cédulas issued presupposed rigorous honesty on the part of the banks and the Government. As a matter of fact, however, Argentina was honeycombed with corruption. A coterie of politicians and their henchmen had complete control of the national and provincial governments, and under the guise of politics carried on a scramble for loot. It was therefore an easy matter for a supporter of the party in power, or a member of the political ring, to obtain loans on worthless property. Fraudulent and fictitious valuations were made by the banks and large amounts of the cédulas issued rested upon no real basis of value.¹

The issues of national and provincial cédulas up to the year 1887 were comparatively moderate. After that date, under the combined influence of private speculators, Government officials, and politicians, the land boom was rapidly extended and clever financiers found a market for the sale of cédulas in Great Britain and on the Continent. Foreign investors seemed to be seized with a mania for this form of security. Series after series, from A to P, were issued by the banks and quickly absorbed by credulous Europeans, who were ignorant of the true state of affairs and who argued

¹ "Gaucho Banking," W. R. Lawson, *The Bankers' Magazine* (London), vol. li, January, 1891, pp. 33-52.

that the cedulas were a better investment than Government bonds for the reason that in addition to the guarantee of the state and provincial governments they were backed up by real estate.¹

European investors, however, did not limit their activities to the purchase of cedulas. The Argentine Government was besieged by European promoters and financiers for concessions to construct railroads, docks, waterways, municipal improvements, and every description of public enterprise. Many of these projects were undoubtedly of a legitimate character, and necessary to the development of the country. But the movement in this direction soon exceeded all reasonable bounds. Railroads were built which could not pay operating expenses for years to come. Other industrial undertakings were entered into under the allurements of the existing inflation in values and the prospect of the country's growth in wealth and population in the future. Public works of all kinds were also constructed without taking into account the real wealth and taxpaying power of the community. The fever of speculation, in short, arising from the inflation of land values soon developed into an insane rush for wealth, and with the growth of confidence in Argentine resources European capital was literally poured into the country.

In addition to the private commitment of capital by foreign investors, the Argentine Governments also, as a result of the demand for public works and of the governmental policy of guaranteeing interest charges on railroads and other industrial projects, soon found it necessary to largely increase their indebtedness. The national and provincial administrations negotiated loans by the dozen through European financial houses. Many municipalities also tried their hand at extracting from the foreigner the

¹ As early as April, 1888, the cedulas issued amounted to 47,957,000 pounds. By the year 1890 the face value of cedulas outstanding was equal to 400,000,000 currency dollars, of which amount about one half was held by foreign investors.

funds from which he was so willing to part. (During the three years prior to 1886, various loans effected by the Argentine Republic in European countries had never exceeded an annual total of £7,000,000 and were generally much below this amount. The total borrowings in 1886 rose suddenly, and during the three subsequent years reached unprecedented figures.¹ The extent to which public borrowing was carried may be seen from the following estimate of the total loans during the period 1886-89:

TOTAL OF LOANS NEGOTIATED BY ARGENTINA, 1886-1889.

1886	£13,500,000	1889	£29,000,000
1887	14,500,000	1890	5,000,000
1888	36,000,000	Total	98,000,000

The negotiation of these loans had a twofold effect. In the first place, the funds realized furnished a further incentive to Government extravagance and official corruption. In the second place, they gave an additional impulse to the existing speculation. To make matters worse, the country was soon plunged into the evils resulting from a greatly depreciated currency.

Specie payments in Argentina had been suspended in 1885. Two years later an attempt was made in the Free Banking Law of 1887 to put the currency of the country on a uniform basis, by the adoption of a national banking system modeled after that of the United States. The head of this system was the National Bank at Buenos Ayres, with branches located in the various provinces. These banks were authorized to create a paper circulation, and to guarantee the notes thus issued the banks were required to purchase from the Government national bonds. The payments for these bonds were to be made in gold, which was to be kept in the Treasury as the ultimate security of the currency issued by the banks. In compliance with the law, millions of dollars in gold were imported by the provincial

¹ *The Bankers' Magazine* (London), vol. li (March, 1890), p. 459.

banks and duly paid into the National Treasury as a guarantee of their note issues. The National Government kept the gold for about a year, when, in defiance of the banking law, the fund was used for the payment of Government obligations. As soon as gold began to leave the Treasury the premium on that metal went up by leaps and bounds. Additional apprehension over the currency situation was also caused by the fact that even Government officials could not give an accurate account of the amount of notes which had been issued by the banks. It was stated to be between 250 and 300 million dollars, but these estimates were soon invalidated by the discovery that illegal issues of millions had been made by both national and provincial institutions. Under these conditions the premium on gold during the two years 1888-89 advanced from 50 to 250 per cent., and during the year 1890 practically remained at the latter figure. The Government endeavored to prevent the depreciation of paper issues by declaring a forced currency, but this action only served to stimulate further speculation in gold. The resultant variations in the currency affected the interests of every one financially concerned in the development of the country, and especially the holders of cédulas and other securities which were payable in currency dollars. These dollars after the dissipation of the gold guarantee fund had no real basis of value, and the finishing touches were thus given to cédulas as a wildcat security.

The financial orgy in Argentina during the period 1887-90 had thus developed to a point where the country was burdened with an immense circulation of inconvertible and depreciated paper currency, an excessive and fraudulent issue of cédulas, and a large public indebtedness. The significant feature of these various forms of Argentine liability, so far as our story is concerned, was the fact that they were principally in the hands of foreign investors. The enormous amount of foreign capital invested in the country is at once apparent from the following statement,

showing the principal items of Argentine indebtedness held abroad in 1890:¹

ARGENTINE LIABILITIES ABROAD, 1890.

	Gold Dollars.	Currency Dollars.
National Debt	122,283,000	200,000,000
Provincial	193,500,000	
Municipal	23,600,000	
Cedulas (say)		
Railways	250,000,000	
Miscellaneous and Private Investments	200,000,000	200,000,000
	789,443,000	
Gold liabilities in currency, at 300 gold premium		2,368,329,000
Total liabilities in currency		2,568,329,000

The total indebtedness of Argentina in 1890, both at home and abroad, was as follows:

TOTAL ARGENTINE LIABILITIES, 1890.

	Gold Dollars.	Currency Dollars.
National Debt	300,000,000	1,153,000
Provincial	195,500,000	13,600,000
Municipal	23,660,000	400,000,000
Cedulas		
Railways	250,000,000	414,753,000
Miscellaneous and Private Investments	200,000,000	
	967,160,000	
Gold liabilities in currency, at 300 gold premium		2,901,480,000
Total liabilities in currency		3,316,233,000

The greater part of this Argentine foreign indebtedness of over one thousand million dollars (in terms of gold)

¹ "The Argentine Crisis — Its Financial Significance," by W. R. Lawson, *The Fortnightly Review*, vol. liv (September, 1890), p. 459.

was held in Great Britain. The appearance of speculation in Argentina, as already noted, had been coincident in point of time with the outgrowth of speculative tendencies in the United Kingdom, and the two movements had subsequently run parallel with each other. Consequently a steadily increasing volume of investment funds passed to the River Plate through British banks, finance companies, and private channels. Reputable financial houses in Great Britain, like the old established firm of Baring Brothers, underwrote Argentine public loans and disposed of them to the British public. Thirteen Argentine provinces during the period 1886-90 exploited their credit in London to the extent of £38,700,000, the National Government negotiated loans amounting to almost £25,000,000, and Argentine municipalities floated about £5,000,000 of their securities in London. British investors also placed between forty and sixty million pounds sterling in Argentine railroad projects, and a similar amount in miscellaneous investments.¹

The grand total of British capital commitments in Argentina, therefore, reached an immense figure. Considered in connection with the concomitant speculation at home and in South Africa, the enormous extent of the British speculative movement during the four years 1887-90 is clearly evident. Its magnitude may be more clearly realized from a summary statement of the total capital commitments in Great Britain during this period:²

TOTAL CAPITAL COMMITMENTS IN GREAT BRITAIN, 1887-90.

	1890	1889	1888	1887
1st Quarter	£30,243,000	£56,846,000	£34,691,000	£28,599,000
2d	59,510,000	49,866,000	74,957,000	35,535,000
3d	39,103,000	34,526,000	22,951,000	16,059,000
4th	13,709,000	48,198,000	27,570,000	17,873,000
	142,565,000	189,436,000	160,169,000	158,066,000

¹ "The Argentine Crisis — Its Financial Significance," by W. R. Lawson, *The Fortnightly Review*, vol. liv (September, 1890), pp. 448-51.

² "Our New Investments in 1890," *The Economist* (London), vol. xlviii (December 27, 1890), pp. 1627-28.

Great Britain had thus invested a large percentage of the increased wealth which had accrued from her prosperity in trade and industry during the four years 1887-90 in enterprises of a speculative character. In addition there had been a large expansion of credit, in which many of the transactions had been of an abnormal character based upon inflated and speculative values. Financial houses had underwritten large amounts of securities and relied upon their sale to the public for reimbursement. Individual investors, in many instances, had not only placed their savings in questionable investments, but had also used securities of doubtful value as collateral for loans with which to continue their speculating operations. A stimulus had been given to this movement by the joint-stock banks, which had followed the policy of loaning at a moderate rate up to a reserve-point of 10 or 12 per cent. of their liabilities, and then depending upon the Bank of England for any funds which might be needed to replenish their reserves.¹ On account of this action upon the part of the joint-stock banks, the Bank of England could not retain its holdings of gold, and oftentimes found it

¹ The following summary statement of some of the strongest joint-stock banks at the end of December, 1890, shows the smallness of their cash reserves as compared with their liabilities.

	Liabilities to Public.	Cash in Hand and at Bank.	Proportion. of Cash to Liabilities.
	£	£	%
London and Western	26,958,600	3,984,200	14.8
Union	16,809,700	2,814,400	16.8
London Joint-Stock	14,155,100	1,165,700	8.1
City	9,677,300	783,300	8.1
London and Southwestern	4,897,600	721,800	14.8
London and County	39,296,100	4,981,700	12.7
Imperial	4,251,000	421,600	9.9
Alliance	5,403,300	594,300	10.9
Consolidated	3,789,800	621,300	16.3
	125,238,500	16,088,300	12.9

necessary to raise the rate of discount for the purpose of securing an increase in the gold supply. As a result of the excessive speculation the credit transactions of the United Kingdom finally increased beyond a safe proportion to the gold reserves. On December 31, 1889, the directors of the Bank of England were forced to raise the rate of discount to six per cent. As a result of this decisive action, the speculation movement was greatly curbed and a great many bubbles collapsed at their inception. There was no thorough purging of the financial system, however, and it was clearly evident that any further shock to confidence might result in a fall in values and great losses. In the event of such a forced liquidation, it was extremely doubtful whether the real values which underlay the speculative movement would sustain the fabric of credit which had been reared upon them.

CHAPTER IV

INDUSTRIAL AND FINANCIAL CONDITIONS IN FRANCE AND GERMANY, 1884-90

Trade and Industrial Depression in France, 1884-87. — Return of Prosperous Conditions in 1887, and the Organization of the Copper Syndicate. — Failure of the Copper Syndicate and the Société des Métaux. — Suspension of the Comptoir d'Escompte. — Absence of Speculation in France, 1889-90. — The Spread of Speculation from Great Britain to Germany. — German Capital Commitments in Argentina. — The Joint-Stock Company Mania. — The Threatened Danger of a Panic averted by the Reichsbank. — Financial Situation in March, 1890.

THE financial and industrial history of France during the period 1884-90 did not show any features in common with the course of affairs in Great Britain. By the year 1880 France had so fully recovered from the Franco-Prussian war that stock-jobbing and other forms of reckless speculation flourished in Paris. This movement came to a head during the year 1882 in a disastrous financial breakdown, and the resultant liquidation was attended by much loss and the uncovering of many corrupt financial practices. A lack of confidence and activity in business and industrial undertakings followed. This fact, together with the existing depression in other countries, strongly influenced the subsequent course of French industry and trade, and it was not until the year 1887 that signs of relief from the continuous period of stagnation began to make themselves evident.

The revival in trade and industrial enterprise was followed by more prosperous conditions. Unfortunately, investors and promoters were unable to confine their energies to proper channels. To the legitimate activity in financial

and industrial circles there was soon added a gigantic scheme for speculating in the price of copper.

As a result of the discovery of the copper deposits on Lake Superior and in other regions of the United States and South America, and the reopening of the Rio Tinto mines in Spain, the world's supply of copper had been enormously increased. The price, therefore, had steadily fallen.¹ French capitalists had obtained control of the Rio Tinto Company, and, under their management it had become very prosperous. The Société des Métaux, a company formed with the support of the Comptoir d'Escompte, also dealt extensively in copper.² The directors of the Société des Métaux, being led astray by the success of the diamond operations in South Africa, sought to monopolize the sale of copper. Under their direction a syndicate of speculators was formed which attempted to control the copper market by buying the entire output of the mines at a fixed price. Contracts were made with the principal copper works of the world, which agreed for the space of three years to sell all their copper to the syndicate at £70 per ton, the copper ring then raising the price to £80 per ton. These contracts involved the purchase of 150,000 tons of copper per year, or an annual outlay of 262,500,000 francs. In addition, the syndicate, in order to successfully control the supply, had to buy the output of mines which had refused to contract with it.

During 1888, the first year of the copper ring's operation, it found its object frustrated by several factors to which it had not given sufficient consideration in forming its plans. In the first place, the supply of copper, under the stimulus of higher prices, was greatly increased. New supplies of the metal came into the market from every direction to profit by the high prices, the world's production of copper

¹ Before 1870 the price of copper had ranged from 2000 to 2500 francs per ton. In 1887 it was below 1000 francs.

² In the autumn of 1887 the Société des Métaux, with the aid of a group of financiers, conducted a successful corner in Chile bars.

in 1888 being 500,000 tons greater than the preceding year. In the second place, people would not buy copper at the enhanced prices. In many cases old copper was used by manufacturers. Wherever possible iron and steel were substituted. Moreover, copper dealers would not replenish their stocks. As a consequence of this limitation of demand in the face of an increase in the supply, the copper speculators, in order to maintain the high level of prices, found it necessary to hoard their supplies of copper and purchase a great amount of the outside production. At the beginning of March, 1889, the syndicate held, in various parts of the world, 160,000 tons of copper.

In accumulating this amount not only the resources of the Société des Métaux had been exhausted, but even the entire capital and part of the deposits of the Comptoir d'Escompte, which had rendered assistance to the copper speculators.¹ This institution had also guaranteed the contracts of the Société des Métaux for two years. When the insolvent condition of the bank became known early in March, through the attempted withdrawal of the Russian Government deposits, other depositors endeavored to withdraw their funds, and a general run upon the Comptoir d'Escompte and two other Paris banks was precipitated. The leading bankers of Paris advanced 25,000,000 francs, but this sum was not sufficient. Finally the Bank of France took over the assets of the Comptoir d'Escompte, and, in order to prevent a general financial panic, advanced 100,000,000 francs toward meeting its liabilities. In the mean time, the copper syndicate found itself without means to absorb the increasing supply of copper. Consequently it could not keep its contracts, and the large producers began to sell in the open market. The price of copper, therefore, quickly moved downwards. Under these conditions the

¹ The Comptoir d'Escompte had involved in the copper speculation not only its capital of 80,000,000 francs, but even its reserve funds of 20,000,000 francs.

copper speculators sustained great losses. The Société des Métaux could not meet its obligations. Finally, during the latter part of March, 1889, it was forced to suspend payments, and the shareholders lost all their capital.

Two months previous to the failure of the Comptoir d'Escompte and the Société des Métaux, work had been suspended on the Panama Canal, and the canal company, which had absorbed 1300 million pounds of French capital, was forced into liquidation. As a result of these two almost simultaneous financial catastrophes, France was deterred from entering into the speculative activity which was so prevalent in England during the period 1888-90. These years were spent by France in putting her financial house in order, and were marked by the endeavor to liquidate past excesses and recuperate past losses. The French people were very cautious in entering into new enterprises of any kind, and only a small amount of Argentine issues or other securities of a doubtful character were absorbed by French investors. Consequently there was no inflation of values, and the cash reserves were ample in comparison with the credit transactions of the country. This fact is apparent from the condition of the Bank of France during the period:¹

BANK OF FRANCE, 1886-90.

First week of Janu- ary.	ASSETS.		LIABILITIES.		
	Coin and Bullion.	Discounts and Ad- vances.	Circulation.	Government Deposits.	Other.
	£	£	£	£	£
1886	89,344,000	55,771,000	116,542,000	3,250,000	16,107,000
1887	94,117,000	53,014,000	115,101,000	9,238,000	14,410,000
1888	91,905,000	52,703,000	113,588,000	6,006,000	15,278,000
1889	89,223,000	59,190,000	110,606,000	9,650,000	17,588,000
1890	100,155,000	60,419,000	126,209,000	12,818,000	13,112,000

¹ During the period 1885-90 the trade and industrial situation in Austro-Hungary gave no indication of unusual activity, owing to the fact that the country had never fully recovered from the evil effects of the

The situation in Germany, however, was entirely different from that in France. The speculating movement at its very outset was communicated from London to Berlin, and after the year 1887, although the German capital commitments were not so great in amount, the gambling mania was as prevalent in Germany as in Great Britain. As early as 1886 Argentina began to exploit its credit in Berlin, and during the three subsequent years a considerable amount of Argentine loans were issued at good prices, through the Deutsche Bank and the Disconto-Gesellschaft. The amount and description of Argentine public securities thus floated in Germany during the period 1886-89 appears in the following summarized form:¹

ARGENTINE LOANS ISSUED IN GERMANY.

5 per cent. loan of the Province of Buenos Ayres, issued October 12, 1886, at 80½ per cent.	\$12,511,432
5 per cent. gold loan of 1886, issued August 25, 1887, at 90 per cent.	10,291,000
4½ per cent. loan of 1888, issued October 16, 1888, at 85.80 per cent.	19,769,500
4½ per cent. exterior loan, issued February 20, 1889, at 90 per cent.	27,000,000
4½ per cent. loan of the City of Buenos Ayres, issued May 1, 1889, at 86 per cent.	9,920,600

The German people were trained to look upon Argentine loans as first-class securities, and many small investors bought them. Large amounts of other Argentine paper, such as cédulas and railroad stocks and bonds, were also purchased. Moreover, German banking houses, led by the Deutsche Bank, established branches in Argentina and extended credits to Argentine banks.²

The public became uneasy in 1888, however, over the future of Argentine finances, and during the following crisis of 1873. Austro-Hungary was also more of a debtor than a creditor nation, and consequently was not in a position to indulge in the speculative activity which had been a marked feature of the years 1887-90 in Great Britain.

¹ *The Economist* (London), vol. xlviii (November 29, 1890), p. 1511.

² The Deutsche Bank was a partner in the Uebersee Bank at Buenos Ayres; the Disconto-Gesellschaft was also a partner in the Du Barry banking concern of Buenos Ayres and Antwerp.

year Germany was a heavy seller of Argentine securities. The volume of Argentine paper which still remained in the hands of German investors at the close of the year 1890 was estimated at about 100,000,000 marks.¹ These securities were principally held by small investors who were scattered over the country.

But whatever evils of speculation Germany escaped through her distrust of Argentine securities were more than equaled by her gambling in industrial shares. After the year 1888, when Argentine issues first began to be looked upon with suspicion, German operators turned their attention toward the promotion of financial and industrial enterprises. Precisely as in Great Britain, this movement soon developed into a mania for the organization of joint-stock companies. During the period 1886-90, 1061 new companies were floated, with a total capitalization of more than 1099 million marks. The number of companies organized each year, and the total capital authorized was as follows: ²

NUMBER AND CAPITAL OF JOINT-STOCK COMPANIES ORGANIZED IN GERMANY, 1886-90.

Year.	Number of New Companies.	Capital — Million Marks.
1886	113	103.94
1887	168	128.41
1888	184	193.68
1889	360	402.54
1890	236	270.99
Total	1061	1099.56

¹ *The Economist* (London), vol. xlviii (November 29, 1890), p. 1511. In a statement of the Deutsche Bank issued during the first week of December, 1890, its commitments in Argentina appeared as follows: Credits extended to Argentine banks, 2,451,000 marks, of which amount 2,000,000 marks were uncovered; investments in Argentine loans and syndicates, 3,395,000 marks.

² "The Crisis of 1890," Max Wirth, *Journal of Political Economy*, vol. i (March, 1893), p. 228. See also "The Earnings of German Companies, 1887-89," *The Economist* (London), vol. xlviii (December 20, 1890), p. 1605.

These new companies included all branches of financial and industrial enterprise. Existing industries and business of every description were combined into joint-share corporations, and new projects were constantly being floated. The same reckless financial methods were also practiced that had marked the joint-stock company craze in Great Britain. The future condition of trade and industry was heavily discounted, and upon this basis of earning power the amount and value of the stock was fixed. Almost all of the companies were over-capitalized, and a large percentage of stock was retained by promoters and vendors as a reward for their services.

Despite these conditions of organization, promoters experienced no difficulty in disposing of new issues to investors. The gambling proclivities of the public increased each year after 1887. Investors were seduced by radiant prospectuses of new ventures, and the stock of companies of decidedly questionable prospects was quickly absorbed. The volume of credit operations was dangerously extended. Swindling went on unblushingly. Promoters and underwriters devoted all their energies to the flotation of new undertakings, and then sold their own holdings, leaving the companies in the hands of investors who knew little or nothing of the business which they represented. As a consequence large numbers of the new ventures failed, and it soon became evident that unless the insane speculation was checked, the country would be exposed to the danger of a financial collapse.

The first note of warning came from the Reichsbank. This institution, however, adopted a policy entirely different from that of the Bank of England under similar circumstances in Great Britain. Its discount rate, which had stood at five per cent. during the first two months of 1890, was suddenly lowered to four per cent. during the month of March. An opportunity was thus given to investors to obtain funds without throwing their holdings upon the

market, and in this way preventing a forced liquidation and a consequent collapse in values. They were not slow in availing themselves of the lowered rates, and the loans and note issues of the bank rapidly increased.¹ During the month of March the Reichsbank increased its discounts and advances £7,755,000 and its note issues £7,376,000.

The threatened danger of a financial panic was thus averted. But the effect of the action of the Reichsbank was only temporary. No permanent disposition had been made of the great mass of credit obligations and the inflated values which had grown out of the previous speculation. They still constituted a menace to the future prosperity of the country, and the indications were that a considerable period of time would be required for their liquidation.

¹ The condition of the Reichsbank during the first week of January of the three years 1887-89, and during the first week of January, February, March, and April, 1890, appears in the following statement:

	ASSETS.		LIABILITIES.		Bank Discount Rate.
	Coin and Bullion.	Discounts and Advances.	Notes.	Deposits.	
	£	£	£	£	%
1887 Jan.	33,815,000	30,286,000	48,325,000	13,742,000	5
1888 "	38,342,000	32,404,000	50,527,000	16,648,000	5
1889 "	43,016,000	28,143,000	53,745,000	14,526,000	4½
1890 "	38,251,000	35,204,000	50,684,000	19,590,000	5
Feb.	39,265,000	27,176,000	48,063,000	14,689,000	5
Mar.	41,124,000	28,770,000	45,204,000	20,815,000	4
Apr.	40,152,000	36,525,000	52,580,000	20,006,000	4

CHAPTER V

THE PANIC OF 1890

The Financial Breakdown in Argentina. — The Resultant Liquidation in Great Britain. — The Baring Failure. — Measures adopted by the Bank of England. — Decline in Value of All Descriptions of Securities. — Forced and Voluntary Liquidation in Great Britain. — The Effects of Conditions in Great Britain upon German Money and Stock Markets. — The Financial and Industrial Situation in France during the Fall of 1890. — The Return to the United States of American Securities held in Great Britain, and the consequent Exports of Gold from the United States. — The Low Level of Bank Reserves in the United States. — Severe Stringency in the New York Money Market and the Issue of Clearing-House Certificates. — Decline in Stock Values. — Business Failures in the United States during 1890. — Continued Return of American Securities by Great Britain during the year 1891 and Exports of Gold from the United States.

THE financial situation in Germany and Great Britain during the early months of 1890 was, therefore, exceedingly precarious, owing to the reckless speculation which had prevailed in both of these countries, and especially in Great Britain during the previous four years. The action of the Bank of England, however, at the beginning of the year in raising the rate of discount, as already seen, had exercised a restrictive influence upon British financial excesses. A period of comparative ease and quiet succeeded which lasted until about the middle of the year. At that time the financial troubles in Argentina reached an acute stage, and through their influence upon Great Britain brought financial affairs in that country to a critical stage. The dissipation of the gold reserve, which had been deposited with the Government by the Argentine banks as a guarantee of their note issues, had been followed, as already pointed out, by a lack of confidence in Argentine paper currency, and a consequent rise in the premium on gold, which ranged from 200 to 250 per cent. during the early part of the year 1890. Under these conditions great difficulty was experienced in carrying on the Argentine

Government. The interest charges on cédulas, together with that on national, provincial, and railroad bonds held abroad, required the annual remittance to Europe of about £7,500,000 in gold.¹ Moreover, the annual indebtedness of Argentina abroad was further increased by the fact that her merchandise imports exceeded exports. No gold was produced in the country, and, under the system of depreciated paper currency, none was received by the Government in the payment of taxes. Consequently, it soon became evident to public officials in Argentina that the only way to avoid default of payment on Government obligations was to negotiate fresh loans in Europe for the purpose of paying interest charges on previous issues. This recourse, however, owing to the growing suspicion of European investors, became more and more difficult. An acute crisis was therefore soon reached in Argentine finance. Through its influence a political revolution was inaugurated which in July, 1890, swept the existing administration out of power.

This change of Government, as might be expected, weakened what little confidence there was left in Great Britain as to the stability of Argentine finance. British investors refused to place any more funds in Argentina, and the price of Argentine securities steadily declined. Consequently the English financial houses which had been floating Argentine loans found themselves in a position of great difficulty. Large masses of securities which they had underwritten, and which they had hoped to sell to the public at a profit, remained in their hands. On account of the fall in value of these securities it was impossible to sell them except at a ruinous loss. For the same reason it was impossible to use them as a collateral for loans. The capital invested was, therefore, locked up, and in order to secure funds to carry on their business, British financial houses

¹ "The South American Financial Crisis," *The Bankers' Magazine* (London), vol. 50 (August, 1890), p. 1254.

were forced to sell consols, American railroad stocks and bonds, and other good securities. These transactions quickly attracted attention, and rumors soon became prevalent as to the embarrassment of different firms in London. To make matters worse, about this time there was a collapse in the South African gold-mining companies, followed by the failure of several South African banks. This disaster caused a further drop in stock values. At the same time the financial houses which had been active in promoting mining companies found themselves in possession of a large mass of undigested securities, and in order to protect themselves were compelled to add to the existing alarm by throwing good securities upon the market. Under these conditions, the rumors as to the solvency of various financial houses which were known to be interested in Argentina and South Africa became persistent. The distrust thus generated gradually deepened until a climax was reached on November 15, 1890, when it was announced that the great firm of Baring Brothers and Company had been compelled to close its doors.

The embarrassment of this old-established banking house was due to the fact that it had not taken proper care to keep its assets in a liquid form. It had locked up so much capital in South American securities, and had come under such serious obligations in respect to these, that it did not have funds to meet current liabilities. As late as 1889 Baring Brothers had underwritten part of an Argentine loan for nearly £8,000,000 which the public had refused to absorb.¹ The immediate cause of the failure of the house was due to the insistence of the Argentine Government on its pound of flesh. The Argentine public officials had a lever against Messrs. Baring Brothers in the shape of a liability on the part of that firm to provide about £6,000,000

¹ During the period 1881-89 it was estimated that Messrs. Baring Brothers, together with the Spanish house of Murietta, had put out £42,000,000 in Argentine securities. Of this sum £20,000,000 was issued in 1888.

for the Buenos Ayres Drainage and Water Works. The Argentine Administration proposed to compound this liability on the condition that Baring Brothers would negotiate a new loan for the purpose of meeting Argentine liabilities in Great Britain. Baring Brothers, as a prerequisite to the granting of the loan, demanded a sharp supervision over financial affairs in Argentina.¹ The Argentine officials resented such an interference, and pressed their claims against the house.

Fortunately, at this critical juncture Baring Brothers and Company acted with the utmost discretion. As soon as they discovered that they would have to suspend payments, they disclosed the state of their affairs to the directors of the Bank of England. The matter was kept secret, and pending an examination of the books of the concern, measures were taken to prevent disaster when the public were informed. After an investigation, the assets of the Barings were found to exceed their liabilities, and on the 14th day of November the chief bankers of London were called in to a meeting at the Bank of England, to take counsel over the situation. Those present, having received accounts of Messrs. Barings' position, agreed to guarantee the solvency of the firm up to £4,000,000. Later in the evening boards of directors of banks and joint-stock companies held similar meetings. By the following day, when the Baring embarrassment was made public, the guarantee fund had risen to £15,000,000, or almost double the amount necessary to stave off a forced liquidation.² The affairs of the firm were placed in charge of the Governor of the Bank of England, and that institu-

¹ Baring Brothers demanded: (1) that the Argentine Government should not make any unnecessary concessions, (2) that it should not float any additional loans for 10 years, and (3) that no more notes should be issued. A further promise of a strictly economical administration was demanded.

² For the conditions under which this guarantee was extended see *The Bankers' Magazine* (London), vol. 50 (December, 1890), pp. 1933-1934. Also, "The Liquidation of the Barings," *The Economist* (London), vol. 47 (November 22, 1890), pp. 1465-1466.

tion made an immediate advance of £7,000,000 to cover the liabilities. At the same time the Bank of England adopted precautionary measures relative to its gold reserve. An arrangement was made with the Bank of France for a loan of £3,000,000 in gold on the security of Treasury bills, and an additional sum of £1,500,000 of that metal was secured from the Russian Minister of Finance by the sale of Treasury bonds.

By the adoption of these measures of precaution a general financial breakdown was averted. Still credit received a severe shock. On November 7 the Bank of England discount rate was advanced to 6 per cent. and remained at that figure until early in December. The joint-stock banks, on account of their apprehensions over the situation, for a short time began to curtail their loans and discounts, and it was finally necessary for the Governor of the Bank of England on November 19 to caution some of the leading bankers that in refusing their customers the usual facilities for borrowing, they were taking the sure means of undoing all that had been done to restore confidence. The Spanish house of Murietta and Company

NUMBER OF COMPANIES PUT INTO LIQUIDATION.¹

Companies.	1890.		1889.	
	Compulsory Liquidation.	Voluntary Liquidation.	Compulsory Liquidation.	Voluntary Liquidation.
Banking	3	17		7
Commercial	77	486	82	431
Manufacturing	35	195	49	175
Total England	115	698	131	613
Scotland	1	48	1	44
Ireland	5	19	1	15
Total United Kingdom	121	765	133	672

¹ *The Economist* (London), vol. xlix (January 3, 1891), p. 10.

had to be sustained, and other financial houses which had issued South American securities had to be assisted by friends. While the number of bankruptcies in the United Kingdom during the year 1890 was less than those for 1889, there was a decided increase in the number of commercial and financial companies that went into liquidation. The statistics for the two years are shown in the table on the preceding page.

This forced and voluntary liquidation, together with the excited condition of investors and operators, caused a decline in all departments of the stock market. Securities shrank in value so greatly that much, if not all, of the previous inflation was swept away. Even first-class se-

THE STOCK MARKET. STATISTICS OF PRICES

	Prices.		
	End Dec. 1890.	End Dec. 1889.	Rise or Fall in 1890.
New $2\frac{3}{4}\%$ Consols (Goschen's)	95 $\frac{7}{8}$	97 $\frac{1}{4}$	— 1 $\frac{3}{4}$
New $2\frac{1}{2}\%$ Consols (Goschen's)	92 $\frac{1}{2}$	94 $\frac{3}{4}$	— 2 $\frac{1}{4}$
Colonial Inscribed Stocks —			
Canada, $3\frac{1}{2}\%$	103	105	— 2
Cape, 4% (1883)	108	110 $\frac{1}{2}$	— 2 $\frac{1}{2}$
Queensland, 4%	107	111 $\frac{1}{2}$	— 4 $\frac{1}{2}$
Home Corporation Stocks —			
Metropolitan Consolidated, $3\frac{1}{2}\%$...	109 $\frac{3}{4}$	112 $\frac{3}{4}$	— 3
Birmingham, $3\frac{1}{2}\%$	107 $\frac{1}{2}$	110 $\frac{3}{4}$	— 3 $\frac{1}{4}$
Home Railway Stocks —			
Caledonian	119	129	— 10
London and Northwestern	177 $\frac{1}{2}$	181 $\frac{3}{4}$	— 4 $\frac{1}{4}$
North-Eastern Consols	165 $\frac{1}{4}$	175 $\frac{7}{8}$	— 10 $\frac{1}{8}$
American and Canadian Railway Shares —			
Central Pacific shares	30	35 $\frac{1}{8}$	— 5 $\frac{1}{8}$
Illinois Central shares	100	122	— 22
New York Central shares	103	111 $\frac{1}{4}$	— 8 $\frac{1}{4}$
Pennsylvania R. R. \$50 shares	51 $\frac{1}{4}$	54 $\frac{3}{4}$	— 3 $\frac{1}{2}$
South American, etc., stocks —			
Argentina, 5% , 1886	77 $\frac{1}{2}$	94	— 16 $\frac{1}{2}$
Buenos Ayres, 6% , 1882-86	68 $\frac{1}{2}$	99	— 30 $\frac{1}{2}$
Guatemala, 4%	47	62	— 15
Uruguay, 5% Unified	51 $\frac{1}{2}$	73 $\frac{1}{4}$	— 21 $\frac{3}{4}$

curities were seriously affected in the downward rush of the market.¹ The inflated South American and other speculative issues, however, came in for the largest amount of depreciation. This fact appears from a comparison of the quotations of some of the leading stocks on December 31, 1889, with the quotations of the year previous.² (See table on p. 68.)

The fall in the prices of good securities was principally due to the efforts of investors and financial houses to protect their speculative holdings. The process of selling first-class securities in order to prevent the sacrifice of speculative shares, as already seen, had been going on steadily during the first three-quarters of the year. After the failure of the Barings and the consequent liquidation and the collapse of inflated values, underwriters and financial institutions found it more and more difficult to carry the large mass of securities which they had been unable to foist upon the public. As calls upon them fell due, and as fresh margins, owing to the decline in prices, had to be supplied, it became necessary to throw on the market a constantly increasing amount of salable securities such as consols and the shares of first-class home corporations. Considerable funds were also realized from the sale of the stocks and bonds of railroads in the United States. The continued offering for sale of securities of this character, at a time when there was an unusually active demand for money, not only resulted, as might be expected, in a decline in their value, but also contributed to the general depression of prices in the stock market.

This downward tendency of stock values was strongly reflected in the German market. The amount of German capital commitments in Argentina, as already seen, had been steadily decreasing since the year 1888, and in 1890

¹ "Why Prices have collapsed on the Stock Exchange," *The Economist* (London), vol. xlviii (November 22, 1890), pp. 1471-72.

² "Commercial History and Review of 1890," p. 35, Annual Supplement of *The Economist* (London), vol. xlix (February 21, 1891).

the principal holders of Argentine securities were small investors who were scattered throughout the country, and for this reason could not through the sale of their holdings exert a dangerous pressure upon the stock market. Consequently German financial houses were not directly threatened by the turn of affairs in Argentina. The German stock and money markets, however, were indirectly affected by the embarrassment and liquidation in Great Britain following the failure of Baring Brothers. In October, 1890, the discount rate of the Reichsbank was raised from 4 to 5 per cent. In November it advanced to $5\frac{1}{2}$ per cent. and remained at that point during the rest of the year. During these months also the market rate was almost equal to the bank rate. But the action of the Reichsbank in lowering its rate of discount in March, 1890, as already pointed out, had been followed by a restriction of speculation and a fall in stock values. The market value of the total shares of industrial companies traded in at Berlin from January to November, 1890, declined over 21 per cent. During the same period there was a fall of more than 10 per cent. in the value of bank shares. After November, 1890, conditions in Great Britain gave a further impetus to the downward movement, and a sharp decline was experienced in all descriptions of securities. Beyond this depression in the stock market, however, no adverse results followed. The influence of affairs in Great Britain during the autumn of 1890 only served to increase the dragging liquidation and depression which had been apparent in Germany from the beginning of the year.

On the other hand, the situation in Great Britain had no permanently injurious effect upon conditions in France. The caution of French investors, together with the losses of the country in the copper speculation and the Panama Canal Company, had saved France, as already pointed out, from the financial excesses for which Germany and Great Britain were being punished. The gold reserves of the

Bank of France were ample, and in addition to the assistance rendered to the Bank of England by the loan of £3,000,000 of gold, £2,000,000 of that metal was sold to the *Crédit Lyonnais* to strengthen its London branch. For a time prices on the Bourse moved downward in sympathy with the British market. This tendency was especially noticeable in the case of Argentine national and provincial bonds, and in the shares of French banks which were supposed to have assisted in the flotation of Argentine securities. Within a few weeks, however, there was a full recovery, and French bank and industrial shares showed a substantial increase in value for the year.¹ As a matter of fact, French investors profited by the depressed stock values in Germany and Great Britain by making heavy purchases of securities in London and Berlin. From an industrial and commercial point of view the year 1890 was also satisfactory to France. Foreign trade in both imports and exports was increased, and receipts from railroad traffic showed widespread activity in trade and industry.² All the visible elements of national prosperity, in brief, gave evidence of a decided improvement.

The collapse in Argentine speculation had thus brought about a financial breakdown and forced liquidation in Great Britain, and had added indirectly to the depression of stock values and the dragging liquidation which was already in progress in Germany. On the other hand, France, because of her previous freedom from speculation, had not suffered any considerable losses. It now remains to be seen what effect this condition of affairs in Great Britain and Germany had upon the financial situation in the United States.

As a matter of fact, the financial breakdown in Great Britain was of very serious significance to this country.

¹ *The Economist* (London), vol. xlix (January 3, 1891), p. 11.

² *Ibid.* vol. xlviii (December 2, 1890), p. 1541.

In a previous chapter¹ it was shown that during the period 1886-90 the United States had purchased enormous quantities of merchandise in the United Kingdom. Payments for this merchandise had been made in American securities, chiefly in the form of American negotiable railroad stocks and bonds. Our abnormal excess of merchandise imports during the years preceding 1890 represented, therefore, capital largely invested by Great Britain in American railroads.

As a result of the liquidation in Great Britain during the year 1890, this capital, as might be expected, was recalled. Underwriters and investors in Great Britain, as already seen, owing to the growing distrust of Argentine issues during the first three quarters of 1890, were forced to sell first-class securities in order to realize funds to prevent the sacrifice of their speculative holdings. A considerable percentage of the securities which were thus offered for sale were the negotiable American railroad securities which had been absorbed by Great Britain during the period 1886-90. These were at once returned to the United States. During the forced and voluntary liquidation which followed the suspension of Baring Brothers, a constantly increasing volume of American securities were sent back to this country by Great Britain to be sold. British capital commitments in the United States also ceased. As a result of this action by Great Britain, gold flowed out of the United States. The net exports of that metal from this country during the two months prior to August 10 amounted to \$16,000,000.

This outflow of gold occurred at a time when the banks of the United States were not in a position to stand the loss. The industrial activity in the West and South during the early half of the year 1890 had been attended with heavy demands for funds. At the same time, the bank reserves of the New York City banks, which had almost reached the minimum limit of 25 per cent. of deposits at the close

¹ Chapter I.

of 1889, still continued at this low level during the first half of the year 1890. On the 16th of August the bank surplus in New York fell below the legal requirement. From that time a deficit was shown in the weekly bank statements of the New York banks for eleven weeks out of the twenty remaining to the end of the year. The largest deficit was on September 13, when it reached \$3,306,900.¹

Under these conditions, the heavy and continuous demand for money in the interior of the country, together with the withdrawal of gold for export, soon brought about serious trouble in the American money market, which later developed into a severe stringency. As early as August 8 rates on call loans advanced to 20 and 25 per cent.² Two weeks later $\frac{1}{2}$ per cent. commission a day was paid in addition to 6 per cent. per annum, or an equivalent of 186 per cent. a year. For two weeks during the middle of

¹ The amount of the surplus and the ratio of reserves to deposits of the New York Clearing-House banks appears in the following statement:

NEW YORK CLEARING-HOUSE BANKS STATEMENT (000's omitted)

		Surplus Reserve.	Reserve to Deposits.
		\$	Per cent.
August	2.....	8,959	27.1
	9.....	1,286	25.3
	16.....	deficit 655	24.8
	23.....	deficit 2,512	24.3
	30.....	deficit 536	24.8
September	6.....	deficit 1,401	24.6
	13.....	deficit 3,306	24.1
	20.....	1,905	25.4
	27.....	14,075	28.4
	October 4.....	11,511	27.7
October	11.....	3,155	25.7
	18.....	deficit 349	24.
	25.....	deficit 124	24.9
	November 1.....	701	25.1
	8.....	deficit 2,544	24.3
November	15.....	deficit 832	24.7
	22.....	deficit 89	24.1
	29.....	382	25.1
	December 6.....	deficit 2,429	24.3
	13.....	607	25.1
December	20.....	4,498	26.1
	27.....	7,725	27.

² The quotations for prime commercial paper in the New York money

September, and for a similar period after news of the Baring failure in England, the same extraordinary rates were demanded. Finally, the New York banks resolved to relieve the existing stringency by the emergency operation of issuing Clearing-House certificates. The first certificates were authorized by the New York Clearing-House Association on the 11th of November. After that date further issues were made in accordance with the demand. The maximum amount outstanding at one time was on December 13, when there were \$15,205,000. By the end of the year this amount had been reduced to \$12,995,000. Clearing-House certificates were also authorized in Boston on November 17, and in Philadelphia on November 18. The maximum issue in the former city was \$5,065,000, and in the latter \$8,870,000.¹

This extraordinary stringency in the money market was attended by commercial and financial disaster. The agitation of the silver question in Congress during the early part of 1890 had been followed by speculation in silver bullion and silver stocks. This movement soon spread to other departments of the stock market, and finally attained the proportion of a general boom in stock values which

market from August to December, 1890, as reported by *The Commercial and Financial Chronicle*, ranged from 6 to 9 per cent. Quotations for call loans during the same period were as follows:

Week ending Friday.	Call Loans.		Week ending Friday.	Call Loans.	
Aug. 1	2	and 6	Oct. 17	2½	and 6
8	3	20	24	3	8
15	3	25	31	3	30
22	3	6+½ per day.	Nov. 7	3	25
29	2	15	14	2½	6+½ per day.
Sept. 5	3	12	21	2	6+½ per day.
12	3	6+½ per day.	28	2	8+½ per day.
19	2	6+½ per day.	Dec. 5	3	15
26	2	6	12	2	6+½ per day.
Oct. 3	2	6	19	2	6
10	2½	7	26	3	6

¹ *Report of the Comptroller of the Currency, Treasury Report, 1891, pp. 327-30.*

reached its highest point during the month of May.¹ During succeeding months stock values declined and the heavy selling of securities in Great Britain, followed by the stringency in the American money market, was quickly reflected in a downward movement of stock values in the United States. The range in price during the year 1890 of the leading stocks on the New York market appears in the following table:

PRICES OF LEADING STOCKS IN 1890.

(Fractional part of quotations omitted.)

	Opening (Jan. 1).	Highest.	Closing (Dec. 31).
Railroads:			
Baltimore and Ohio	101	107 (May 23)	92
N. Y. Central and Hudson	106	111 (June 3)	101
Delaware and Hudson	147	175 (May 14)	132
Atchison, Topeka and Santa Fe	33	50 (May 15)	28
Illinois Central	117	120 (Jan. 31)	97
Northern Pacific	30	39 (June 10)	21
Norfolk and Western	22	24 (May 6)	14
Miscellaneous:			
American Cotton Oil Trust	30	34 (May 19)	16
Pipe Line Certificates	102	108 (Jan. 21)	70
Sugar Trust	58	95 (May 21)	57
Western Union Tel.	83	87 (May 14)	76

As a result of this depression in stock values, stock operators and speculators, who had loaded up with large masses of securities in anticipation of a silver inflation, lost immense sums. Many brokers and investors, together with a number of financial houses, owing to the stringency of the money market, were unable to secure funds to protect their holdings, or, on the other hand, they found it necessary to dispose of first-class securities at a loss, and, as a consequence, were forced to suspend payments. Moreover, many importers and dealers, as well as manu-

¹ During the month of May, 1890, 11,052,779 shares of stock of a par value of \$1,051,139,065 and an actual value of \$628,978,858, were sold on the New York Stock Exchange; during May, 1889, 7,155,711 shares of a par value of \$673,794,760 and an actual value of \$420,969,966 were sold.

facturers, had extended their credit as far as possible in laying in stocks of commodities in anticipation of a rise of prices after the enactment of the McKinley Tariff Bill. In many cases the financial stringency prevented them from securing funds to meet their obligations, and they also were driven into bankruptcy. Finally, the high rates for loans in the money market almost amounted at certain periods to a suspension of credit, and were responsible for the failure of a great many mercantile houses and industrial establishments which were dependent upon uninterrupted accommodations, and which, under normal conditions, would have had small difficulty in continuing their operations. The number of mercantile failures reported during the year was 10,907, with liabilities of \$189,856,964. During the year 1889 the number of failures was 10,882, representing liabilities of \$148,784,337.¹

The greater number of failures in 1890, however, did not represent any serious unsoundness in financial and commercial circles. Interior trade was active. Bank clearings and railroad earnings were also larger than in the preceding year. Our foreign trade showed a large increase. The production of iron and steel was greater than the output during the year 1889.² Moreover, the business failures themselves during the year 1890, in the light of the stringency in the money market, clearly indicated that

¹ *The Commercial and Financial Chronicle*, Annual Supplement, Financial Review of 1890, p. 15.

² The following summary furnishes at a glance a brief industrial comparison of the two years 1889 and 1890 :

	1889.	1890.
Bank clearings in the U. S.	\$56,175,327,997	\$60,117,891,393
Imports of merchandise	770,521,965	823,318,782
Exports of merchandise	827,106,347	857,623,677
Gross earnings of railroads	991,935,331	1,086,039,735
Pig-iron produced (tons of 2000 lbs.)	8,516,079	10,307,028
Steel rails produced (tons of 2240 lbs.)	1,403,700	1,522,204

industry and business were in a safer position, and conducted on a wider margin, than during the preceding year. This fact becomes apparent from a comparison of the failures of the first three-quarters of each year during the two years 1888-90.

First Nine Months of	Number of Failures.	Amount of Liabilities.
1890	7581	\$100,771,820
1889	7879	105,055,898

From these figures it is evident that the proportion of casualties during the first three-quarters of 1890 was less, although the strain was greater than during the previous year. The latter quarter of 1890 was, of course, marked by exceptional conditions, and the number of failures as compared with previous years was greatly increased. It was due to the solid position of our industries, however, that the financial breakdown in the latter part of the year was not more widespread and disastrous. At the same time, the fact that the industrial and business collapse had not been more extended furnished hope that the country would not be long in recovering from the effect of the panic.

Great Britain and Germany, however, continued their process of liquidation, and the effect was keenly felt in the United States. Temporary respite from the stringent condition of the money market was obtained during the early part of December, 1890, by the importation of \$5,000,000 in gold from abroad. During the first half of the year 1891 the money market was also much easier, and there was never any recurrence of the extraordinary rates for call loans which had prevailed during the preceding six months. American securities, however, continued to be returned by Great Britain. Although Great Britain

and Germany were recovering from the effects of the Baring panic, confidence in foreign investments had not returned. Consequently there was no demand from abroad for American securities, but on the contrary a constant effort to get rid of them. Imports of merchandise into the United States were also heavy during the first half of 1891, owing to the fact that some of the schedules of the McKinley Law, such as the duties on tinplate, did not go into effect until the middle of the year. Because of the small crops of 1890 and the lessened European demand, the exports of agricultural products from the United States were not sufficient to offset these two tendencies in the international trade situation. The result was an outflow of gold from the United States which lasted from February to late in the month of July, 1891.¹ There was also depression in business and industry, and the decline in stock values continued until a very low level was reached. During the first half of 1891 there were, in short, no indications of relief in the United States from the indirect but evil effects which had grown out of the Argentine collapse and the Baring failure.

¹ The net total of gold exported during these months was \$72,786,666.

CHAPTER VI

RECOVERY FROM THE PANIC OF 1890 AND FINANCIAL CONDITIONS IN THE UNITED STATES, 1891-93

The Extraordinary Grain Crop of 1891 in the United States. — Heavy Exports of Grain from the United States in the Face of a European Harvest Shortage. — Imports of Gold and Recovery from the Previous Financial Depression. — Appropriations of the Fifty-First Congress. — Increase in Circulation of the Country through Government Extravagance and Issue of Treasury Notes. — Increase in Legal-Tender Holdings of New York Banks. — Legal-Tender Notes used in the Payment of New York Clearing-House Balances. — Increased Percentage of Legal-Tender Notes used in the Payment of Customs Duties. — The Payment of Government Balances at the New York Clearing-House in Greenbacks and Treasury Notes. — Withdrawal of Foreign Capital and Exports of Gold from the Country. — Presentment of Greenbacks and Treasury Notes at the Treasury for Redemption. — Decline of the Treasury Gold Reserve below the Statutory Minimum, and the General Distrust over the Currency Situation.

AFTER the first of August, 1891, a fortunate turn in the international grain situation brought about a radical change in the depressed conditions which had prevailed in the United States during the preceding nine months. The wheat crop of 1891 in the United States was the largest up to that time which had ever been grown. The returns showed a yield of 611,780,000 bushels in 1891 against 399,262,000 bushels in 1890. The same remarkable increase was also true of the corn and oats crop. Moreover, the cotton crop in 1891 was unprecedented.¹ The most significant feature in the situation, however, lay in the fact that this extraordinary increase in the production of cotton and cereals in the United States was coincident with a shortage in European harvests. The Russian wheat

¹ The yield of corn in the United States in 1891 was 2,069,154,000 bushels against 1,489,970,000 bushels in 1890; the yield of oats in 1891 was 738,394,000 bushels against 523,621,000 bushels in 1890. The cotton crop in 1891 was 9,038,707 bales against 8,655,618 bales in 1890, and 7,313,726 bales in 1889.

crop, which, next to that of the United States, was most largely depended upon by European consumers, was almost a total failure. The grain shortage in France was one of the most serious in the history of the country. The Russian Government issued a ukase against the export of rye on August 10, and another against the export of wheat on November 21. A decree removing the import duty on wheat was also promulgated in France. The market for American grain was therefore broad and eager. On account of the small crops of the two years 1889 and 1890 the European demand for American cereals quickly developed and the pressure of export grain from the United States during the autumn of 1891 was very great. The export of breadstuffs almost equaled the enormous outward trade during the year 1879-80 following the resumption of specie payments.¹

Under these conditions, a radical change in the international trade situation quickly developed. Exports of gold ceased in July. Although imports of merchandise into the United States increased, the trade balance during August turned sharply in favor of this country. From that time until the end of the year the net importation of gold amounted to about \$37,500,000.² With this influx of gold into the country, the bank reserves became ample and the money market easy. As a matter of fact, the absence of the usual stringency in the New York money market during the closing months of the year was quite notable, call loans ranging in December from 2 to 4 per cent. Improvement in the prices of stocks and bonds also began early in August, and except for a downward turn in the months of October and November, there was a steady gain in values. Quotations stood at a much higher point at the closing of the year than at the opening. Great

¹ *Statistical Abstract of the United States*, 1903, p. 337, Department of Commerce and Labor, Washington.

² *Report of the Secretary of the Treasury*, 1892, p. 258.

Britain, owing to the disclosures which had followed the Baring liquidation, had not recovered full confidence in foreign securities, and the new capital commitments in London were small in comparison with previous years. At the same time, conditions were so improved in the United Kingdom that it was no longer necessary to recall British capital invested in America.¹ On the contrary, Great Britain was a purchaser of American securities during August and September, 1891, and during the month of December there was a marked advance in American railroad issues on the London Stock Exchange.² While the heavy exports of grain did not affect very sharply the interior trade situation in the United States, beyond adding to the transportation business, the prospects of increased activity and better prices were very bright. The iron and steel trade also showed signs of expansion as early as August, and in the latter part of the year more furnaces went into blast and the demand for iron and steel products constantly grew larger.³ On all sides there were indications of a revival, and of a complete recovery from the previous financial depression. The extraordinary American grain crop, in brief, in the face of an extensive European demand, furnished an unprecedented basis for a healthy industrial and trade expansion, and, if the finances of the United States had been in a sound condition, the country would have probably entered upon a period of unsurpassed prosperity. As it was, however, the natural economic development of the country at this time was checked, and finally subverted, by the evil effects of the previous silver legislation and the general fiscal policy of the Harrison Administration.

It was pointed out in a previous chapter that the Har-

¹ "Commercial History and Review of 1891," Annual Supplement to *The Economist* (London), vol. 50.

² *The Economist* (London), vol. 49 (December 26, 1891), p. 1651.

³ "The Financial Review of 1891," Annual Supplement to *The Commercial and Financial Chronicle*, p. 1.

rison Administration, when it assumed control of the Government, in 1889, adopted a twofold policy for the purpose of getting rid of the surplus revenue which during the years preceding 1890 had been a marked feature of the fiscal situation.¹ On the one hand, the McKinley Bill was so framed as to eliminate some of the most productive sources of public revenue, such as the receipts from duties on sugar.² On the other hand, Congress was encouraged to enter upon a course of increased expenditures. The Fiftieth Congress, as already seen, was not slow in putting the latter part of this policy into operation, and had greatly increased the annual appropriations of the Government. But its successor, the Fifty-First Congress, which held its sessions during the two years 1891 and 1892, went even further in the way of Government extravagance. During its first session it raised the annual outlay for pensions over \$16,000,000, and during its second session added a further increase of more than \$46,000,000. It ran up appropriations for rivers and harbors almost \$6,000,000. It also authorized about \$3,000,000 additional for forts and fortifications. Similar increases were made in the provisions for the various permanent departments of the Government. Every committee seemed to make its calculations with the idea that there was an unlimited fund upon which to draw. The total budget for the year 1891 was more than 69 million dollars larger than that for 1890; and the total outlay for 1892 was 36 million dollars greater than that for 1891. The combined appropriations of the Fifty-First exceeded those of its predecessors by more than 148 millions.³)

This extravagant policy soon had the desired result. Under its operation the surplus revenue was not only

¹ See p. 14.

² It provided also for the payment of a bounty to producers of domestic sugar.

³ An itemized statement of the appropriations of Congress during the period 1890-93 is to be had in the *Report of the Secretary of the Treasury*, 1893, p. cxvi.

wiped out, but the Treasury was even threatened with a deficit. As early as April, 1891, the Treasury was forced to suspend the redemption of the public debt, except such an amount as was necessary to meet the sinking fund requirement.¹ Moreover, all the demands upon the Treasury which were not compulsory were refused. Despite these and similar expedients, however, there was a Treasury deficit of more than \$1,000,000 during the fourth quarter of the fiscal year 1891.² Larger deficits occurred during the second and fourth quarters of 1892.³ Fortunately, in each of these cases an expansion of revenues during the other periods of the year prevented an annual deficit in Government receipts as compared with expenditures.

But not only the extravagance of Congress caused a serious diminution in Government resources. (The increased disbursements of the Government, by dissipating the surplus revenue which would have otherwise accumulated in the Treasury, also added largely to the amount of money in circulation. At the same time a steady stream of Treasury notes, through the operation of the Sherman Act of 1890, was being poured into the circulation of the country. This law, as already seen, authorized the purchase of 4,500,000 ounces of silver each month, to be paid for in legal-tender Treasury notes, and was practically equivalent to guaranteeing an increase in the circulating medium of something like \$50,000,000 annually.⁴ Altogether, as a result of the silver issues of the Treasury, and of the increased expenditures of the Government, the money in circulation in the United States during the eighteen months ending December 31, 1891, had been increased to the extent of \$172,276,526. Within the last six months

¹ *Report of the Secretary of the Treasury*, 1891, p. xxvi.

² *Ibid.*, p. 233.

³ *Ibid.*, 1892, p. 30.

⁴ At the end of the fiscal year 1891 there were outstanding \$50,228,417 of Treasury notes of 1890. At the end of the fiscal year 1892 this amount had been increased to \$100,863,230. — *Report of the Secretary of the Treasury*, 1892, p. 61.

of this period, — between July 1, 1891, and January 1, 1892, — the circulating medium of the country underwent an expansion of \$104,207,636.¹)

If the forms of money which were thus used to increase the circulation had been of a sound character, or if the state of business and trade — the increase of small cash transactions — had been such as to demand more money, there would have been no serious significance attached to this extraordinary expansion of the circulating medium of the country. As it was, however, the difficulty previously experienced by the Treasury officials, even during the exceptionally prosperous period 1886-90, in maintaining in circulation the silver certificates authorized by the Act of 1878, pointed to the fact that any arbitrary increase in the currency, such as the automatic issue of \$50,000,000 of Treasury notes each year, would be attended with much hazard.

Unfortunately for the country, this inherent danger in the operation of the Sherman Law soon made itself evident. The business activity which attended the harvesting and marketing of the enormous grain crop of 1891 absorbed for a time the increased circulating medium of the country. Owing to the urgent demand of the European market, however, the movement of the season's crop and the export of grain was over at an earlier date than usual. With the European buyers of grain thus satisfied, the harvest trade contracted, and the Western banks at once found their vaults full of idle currency. In November, 1891, this currency began to move East in great quantities. The supply of currency in New York immediately showed an increase. The tendency of most serious import in connection with the movement soon became apparent in the rapid growth in the legal-tender holdings of the New York banks. Prior to the passage of the Silver Law of 1890 their legal-tender holdings had never exceeded the demands

¹ *Report of the Secretary of the Treasury*, 1892, p. 103.

of their customers. Beginning with the autumn of 1891, however, each succeeding harvest season was followed by the movement of an increased amount of greenbacks and Treasury notes of 1890 from the interior to the East. This tendency is apparent from the following table showing the legal-tender holdings of the New York Clearing-House banks from November, 1891, to June, 1893:¹

LEGAL-TENDER HOLDINGS OF NEW YORK CLEARING-HOUSE
BANKS, 1891-93 (000's omitted)

First Week of		
November,	1890,	\$22,101
December,	1890,	23,963
January,	1891,	26,571
June,	1891,	6,687
January,	1892,	37,814
June,	1892,	55,159
August,	1892,	60,278
January,	1893,	46,157
June,	1893,	58,683

This accumulation of greenbacks and Treasury notes of 1890 in the New York banks would ordinarily have had no significance beyond the fact that the currency of the country was greatly in excess of the needs of trade. Under the operation of the silver legislation of 1890, however, the situation was one of serious import. Bankers soon realized that under the Sherman Law of 1890 there was no limit to this increase in their legal-tender holdings. On the contrary, the limit of their gold reserves might be reached in a single season. To protect their depositors, therefore, they sought to retain their gold reserves and to get rid of as large an amount of their legal-tender holdings as possible. The Treasury notes of 1890, as already seen, were redeemable in gold and were available for all banking purposes. Consequently they could not be excluded from settlements at the New York Clearing-House, as had happened in the case of the silver certificates authorized by

¹ Compiled from Clearing-House Statements published in *The Commercial and Financial Chronicle*.

the Act of 1878. The result was an increasing use of Treasury notes and greenbacks in settlements between the banks. In 1890 the legal-tender notes had been used in the payment of only one per cent. of New York Clearing-House balances. In 1891 thirty-five per cent. of the balances were paid in legal tenders. During the year 1892 the percentage of legal-tender payments had risen to fifty-seven and a half.

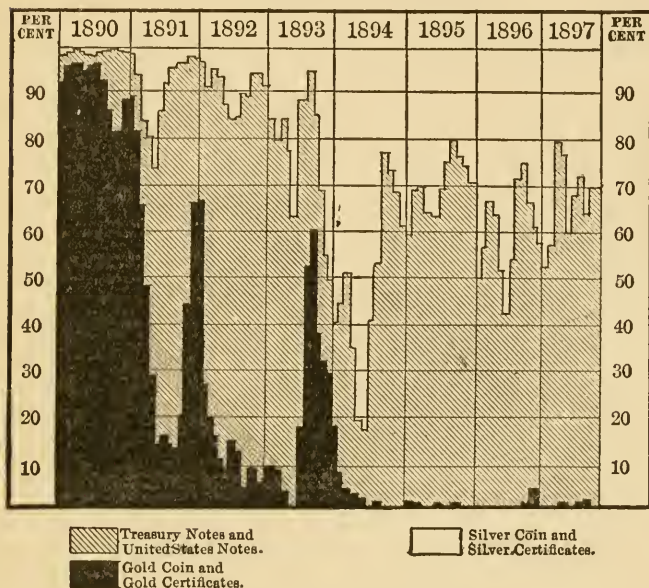
The next step taken by the banks to reduce their supplies of legal tenders was one which, as already pointed out, was taken during the two years 1884 and 1885, when the silver circulation under the Act of 1878 became redundant. It consisted in working off on the Treasury silver issues and greenbacks by way of the customs revenue. During the first six months of 1890 about ninety per cent. of the customs revenue at New York was received in gold. During the subsequent two years the percentage of payments in gold steadily decreased. In June, 1891, gold coin and certificates formed only about twelve per cent. of the total receipts; in June, 1892, they were eight per cent.; in December, 1892, four per cent.; and by the end of April, 1893, gold payments practically ceased. Gold was thus gradually displaced in the Government customs receipts by silver certificates, Treasury notes of 1890, and greenbacks. As early as June, 1891, forty-four per cent. of the customs duties at New York were paid in greenbacks and twenty-nine per cent. in Treasury notes. In June, 1892, forty-nine per cent. of the customs revenues were received in Treasury notes and twenty-six per cent. in greenbacks. During the year 1892, as a whole, and the first quarter of 1893, about seventy-five per cent. of the customs revenues came in the shape of greenbacks and Treasury notes. From June, 1892, a constantly increasing percentage of payments was also made with silver certificates.¹ The percentage of the

¹ *Report of the Secretary of the Treasury*, 1893, p. 36.

various kinds of money used for customs payments at New York is graphically exhibited in the following chart: ¹

KINDS OF MONEY RECEIVED IN MONTHLY PAYMENTS

FOR CUSTOMS AT NEW YORK, BY PERCENTAGES



The tendency of this flow of greenbacks, Treasury notes, and silver certificates into the customs revenue was to place the Treasury in the same embarrassing position it had occupied during the two years 1884 and 1885, when its receipts of gold were displaced by silver certificates, and the maintenance of its gold reserve was endangered by disbursements of gold to meet Government obligations. But the Treasury notes of 1890, as already seen, were entirely different from the silver certificates in that they

¹ This chart is a partial reproduction of Chart I of the *Report of the Indianapolis Monetary Commission*.

were available for the payment of Clearing-House balances. Secretary Foster, therefore, when confronted with a rapid shrinkage of gold receipts and the consequent possibility of a fall in the Treasury gold reserve to the danger-point, decided that the Government's own disbursements should be stopped. Accordingly, during the fiscal years 1891 and 1892 a constantly decreasing amount of gold was paid into the New York Clearing-House in settlement of balances against the New York Subtreasury. After December, 1892, gold payments to the New York Clearing-House were practically abandoned. On the other hand, during the fiscal year 1891, \$31,957,946 in Treasury notes were used in the payment of Clearing-House balances. In the fiscal year 1892 the amount of Treasury notes used for this purpose was increased to \$57,826,734. A large volume of greenbacks during these two years was also sent to the Clearing-House by the Government. From June, 1892, to July, 1893, the settlement of Government balances was almost exclusively effected in these two forms of currency.¹

Gold was, therefore, hoarded both by the Government and by the banks. At the same time, as already pointed out, fresh supplies of gold for the Treasury were cut off through the displacement of gold in the customs receipts by Treasury notes, greenbacks, and silver certificates. As a consequence, the net amount of gold in the Treasury steadily declined (see Chart II, p. 93), and apprehension began to be felt as to the ability of the Treasury to continue gold payments unless the existing drain upon its reserves was stopped. This apprehension soon affected foreigners who had funds invested in the United States. The embarrassment in Great Britain following the Baring disaster had disappeared by the autumn of 1891, as already seen, and the process of sending securities to the United States to relieve Great Britain's financial neces-

¹ *Report of the Secretary of the Treasury (Finance)*, 1893, p. 40.

sities had long since ceased. But the currency situation in the United States had been viewed with alarm by British investors as early as 1891.¹ The continued agitation of the silver question in Congress and the constant fear that a free-coinage silver law would be passed, together with the attitude of the United States in the Brussels Monetary Conference of 1892, did not serve to lessen but rather to increase their apprehensions. In its issue of February 20, 1892, the "London Economist," in discussing Richard P. Bland's report on a free-coinage measure, made the following comment on the condition of the currency in the United States:²

"The constant agitation on the question [free coinage of silver], however, is proving injurious to the States. It frightens away capital, checks enterprise, and paralyses industry. And now that the Silver party have openly adopted the repudiation of gold contracts as the chief plank in their platform, its deadening and depressing influence may be expected to become still more pronounced."

Four months later "The Economist" gave expression to the increasing apprehension in Great Britain relative to the currency situation in this country. In its issue of July 9, 1892, it said:³

"It is very evident that if the Treasury continues to lose gold, and at the same time piles up liabilities payable in gold on demand, as it has been doing since the Act of 1890 was passed, it is likely before very long to become involved in serious difficulties. Its reserve is approaching the 'apprehension point,' the point, that is, at which people will begin to fear that its stock of gold will not be sufficient to meet the demands that may be made upon it, and will be disposed to make a rush to convert their notes, lest, if they delay, conversion will be impossible. Already

¹ "United States Currency and Finance," *The Economist* (London), vol. 49 (December 26, 1891), p. 1648.

² "The Report of the United States Coinage Committee," *The Economist* (London), vol. 50 (February 20, 1892), p. 244.

³ "United States Currency and Finance," *The Economist* (London), vol. 50, p. 887.

there is a good deal of nervousness, as is shown by the sensitive-ness of the American stock markets to the continued efflux of gold to this side. . . . The States thus appear to be drifting into grave monetary trouble."

Consequently, (when gold was hoarded by the United States Government and the New York banks, and when the tendency toward an embarrassment of the Treasury became more and more pronounced, British and other foreign investors in American securities hastened to get rid of their holdings before a very general distrust and large sales would cause a fall in prices. The excess of merchandise exports from the United States over imports during the fiscal year 1892 was \$202,000,000 in round numbers, and yet no gold was sent back in payment. Payments were made by the return of American securities. Moreover, there was an excess of exports over imports of gold during 1892, which showed that even the remarkable credits in merchandise which we had accumulated abroad were not sufficient to offset the withdrawal of funds from the United States by foreign investors. The United States was not only asked to settle its indebtedness abroad, but foreign creditors also refused to make any further commitments of capital in this country. Under the pressure of these conditions, the drain of gold from the country during subsequent years constantly increased.) The exportation and importation of gold and the net exportation during the three fiscal years 1891-93 was as follows:

IMPORTS INTO AND EXPORTS OF GOLD FROM THE UNITED STATES, 1891-93.

Year ending June 30.	Imports.	Exports.	Excess of Exports over Imports.
1891	\$18,232,567	\$86,362,654	\$68,130,087
1892	49,699,454	50,195,327	495,873
1893	21,174,381	108,680,844	87,506,463

Up to the end of the fiscal year 1892, gold for export from the United States had been provided by drawing through the New York Clearing-House upon the gold reserves of the associated banks of that city. But, as already seen,¹ this situation had been changed through the operation of the Silver Law of 1890 in causing balances to be settled at the New York Clearing-House in legal-tender notes. Subsequent to June, 1892, the check which a sterling banker received for his bill of exchange in London, after passing through the Clearing-House, was met in legal-tender notes. These notes could not be used in New York by the sterling bankers to pay their drafts on London, and the banks with which they carried deposits were unable to provide the necessary gold out of their own reserves. As a consequence, there were only two ways available to secure gold. In the first place, the necessary amount might be secured by offering a premium. Such action, however, would have constituted an assault upon the public credit, and an open acknowledgment of the depreciation of the currency of the country. On the other hand, greenbacks or Treasury notes might be carried to the Treasury and gold secured through their redemption. It was for this purpose — to protect the currency of the country from depreciation — that the Treasury gold reserve had been provided. Bankers, therefore, who needed gold for export, brought greenbacks to the Treasury to be redeemed.

During the previous history of the Treasury but a very small amount of legal-tender notes had been thus presented for redemption. The amount redeemed during the thirteen years 1879-91 had been only \$34,000,000.² But the expedient of withdrawing small greenbacks and substituting greenbacks of large denomination adopted by the Treasury officials in 1886, in order to make room

¹ See p. 88.

² *Report of the Secretary of the Treasury (Finance)*, 1893, p. 13.

for silver certificates in the circulation, had resulted, as already pointed out,¹ in placing the greenbacks of large denomination in the reserves of the banks, where they were readily available to draw gold from the Treasury, in the event of an emergency such as confronted the country during 1892. The Treasury notes of 1890 were also redeemable in gold, and, having through the redundancy of the currency accumulated in the bank reserves, might be quickly used in making demands on the Treasury. With the means thus at hand, rapid inroads were made upon the Treasury's stock of gold. The heavy exports of gold from the country during the latter half of 1892 and the early part of 1893 were almost wholly drawn from the Treasury by the presentment of Treasury notes and greenbacks. The amount of notes redeemed during the three fiscal years 1891-93, and the connection between the redemption of legal-tender notes and the flow of gold from the country, is shown in the following table:

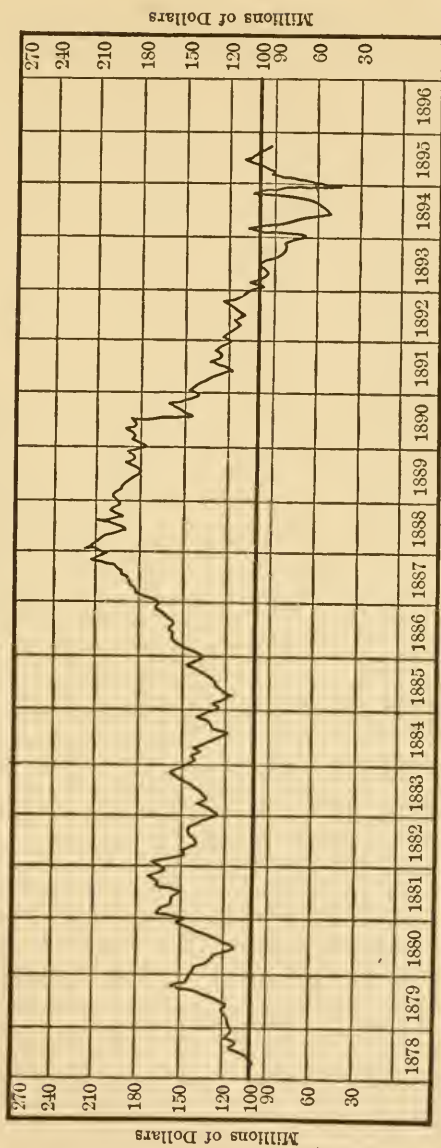
REDEMPTION OF GREENBACKS AND TREASURY NOTES AND
EXPORTS OF GOLD, 1891-93.

Fiscal Year.	Greenbacks redeemed.	Treasury Notes redeemed.	Total Redemptions.	Exports of Gold.
1891 . . .	\$5,986,070		\$5,986,070	\$86,362,654
1892 . . .	5,352,243	\$3,773,600	9,125,843	50,195,327
1893 . . .	55,319,125	46,781,220	102,100,345	108,680,844

This drain upon the Treasury gold reserve through the redemption of greenbacks and Treasury notes brought the existing apprehension as to the maintenance of gold payments to a disastrous climax. It has already been shown how the silver law of 1890 brought about a redundancy of the currency, and an accumulation of legal tenders in the New York banks as early as 1891. As a

¹ See p. 23.

NET GOLD IN THE TREASURY



result of this accumulation of legal-tender notes, as also pointed out, a constantly increasing percentage of the customs revenues, after the marketing of the grain crop of 1891, was received in greenbacks and Treasury notes. The inflow of gold to replenish the Treasury surplus was thus greatly curtailed. At the same time it was found that the outflow of gold from the Treasury was rapidly increased by the extravagant appropriations of the Fiftieth and Fifty-first Congresses.¹ To this alarming situation was now added the drain upon the gold reserves caused by the direct redemption of Treasury notes and greenbacks. The Treasury gold reserve in short was being dissipated by Government expenditures and the redemption of legal-tender notes, while additional supplies of gold were being cut off through the displacement of gold in the customs receipts by the greenbacks and silver currency. As early as June, 1892, as will be seen in the accompanying chart, the Treasury gold reserve had been reduced to \$114,231,883. In his report to Congress for that year Secretary Foster declared that the redemption machinery of the Government was in peril.² After this date the growing redundancy in the silver circulation caused by the automatic issue of \$50,000,000 Treasury notes annually was attended by increased hoarding of gold by the banks, heavier exports of gold from the country, and the presentment of a larger amount of legal-tender paper at the Treasury for redemption. Under these influences, the gold reserve was maintained with increasing difficulty and the alarm over the Treasury situation became more pronounced and widespread. By the close of January, 1893, the gold reserve had declined to \$108,181,713, a bare eight million dollars more than the danger minimum of \$100,000,000.³ Conditions had reached such a critical stage

¹ *Report of the Secretary of the Treasury (Finance)*, 1893, p. cxxviii.

² *Ibid.*, p. xxix.

³ *Ibid.*, p. 75.

early in February that Secretary Foster gave orders to the Bureau of Printing and Engraving to prepare plates for a bond issue under the provisions of the Resumption Act. About six or eight million dollars in gold, however, was obtained early in February from the New York banks in return for legal-tender notes, and with this assistance the Treasury was kept afloat until the finances of the Government could be turned over to the incoming Cleveland Administration.

When Secretary Foster turned over the control of the Treasury to the Democratic Administration, the gold reserve was only \$100,982,410, and the total of all other kinds of money in the Treasury was scarcely \$25,000,000.¹ By April 15, Secretary Carlisle was forced to issue an order to suspend the further issue of gold certificates for gold deposited in the Treasury as required in the Act of July 12, 1882, which stated that no more gold certificates should be issued when the gold in the Treasury "reserved for the redemption of United States notes falls below \$100,000,000." On April 22, the gold reserve actually fell below the \$100,000,000 limit. Several days before this occurrence, the feverish condition of the money market and the anxiety over the currency situation were intensified by a rumor that Secretary Carlisle intended to abandon the policy of redeeming Treasury notes in gold. The Silver Law of 1890, as already cited, authorized the Secretary to "redeem such notes in gold or silver coins at his discretion." Since the gold reserve had declined to the statutory minimum, it was argued that Secretary Carlisle would tender only silver coins for these notes and thus place the country upon a basis of silver payments. Secretary Carlisle, on April 20, announced that he would pay gold for Treasury notes so long as he had "gold lawfully available for that purpose." This reply still left the matter in doubt. Consequently it added to the existing alarm and caused

¹ *Report of the Secretary of the Treasury (Finance)*, 1893, p. 75.

an increase in the gold exports from the country.¹ Two days later, however, President Cleveland publicly declared that both the "President and his Cabinet are absolutely harmonious in the determination to exercise every power conferred upon them to maintain the public credit, to keep the public faith, and to preserve the parity between gold and silver and between all financial obligations of the Government." But the uneasiness of the country, which had been constantly increased by the undermining of the Treasury, refused to be allayed. On the contrary, it soon developed into a panic which was followed by widespread disaster.

¹ The exports of gold from New York and Boston during this week amounted to \$8,000,000.

CHAPTER VII

THE CRISIS OF 1893

The Collapse on the New York Stock Market. — Depression of Stock Values. — Run of Depositors upon Interior Banks. — Withdrawal of Banking Deposits from Eastern Reserve Centres, and the Resultant Deficiency in New York Bank Reserves. — The Stringency in the Money Market. — Development of a Money Famine. — Issue of Clearing-House Certificates. — Mercantile and Industrial Failures. — Bank Suspensions and Failures. — Repeal of the Silver Purchase Clause of the Sherman Law and the Return of Confidence.

THE first evidence of the culmination of the long-felt uncertainty as to the maintenance of gold payments came in the shape of a collapse on the New York Stock Exchange. The same reasons which had led British and European investors to distrust the currency situation in the United States had already affected Americans. The amount of new commitments of capital by American investors had been steadily decreasing since the passage of the Sherman Law.¹ After the beginning of the year 1893 this tendency assumed an aggravated form, manifesting itself not only in a lessened activity in new undertakings, but also in an endeavor to withdraw from old enterprises.

During the first five months of 1893, when the condition of the Treasury grew worse week by week, and the change from a gold to a silver basis of payments became more and more probable, investors became exceedingly anxious to dispose of their holdings of securities before the critical moment arrived. In the very nature of things they desired to realize on their investments before the gold standard of payments was abandoned. As this distrust of the currency developed and the efforts to realize were

¹ See p. 106.

stimulated, there was a steady fall in stock quotations. The climax was reached immediately after the decline, on April 22, 1893, of the gold reserve below the danger-limit of \$100,000,000. After that date the attempt on the part of investors to liquidate in the face of the general distrust of the Treasury situation was followed during the first week of May by a panic and a sharp fall in values on the New York Stock Exchange.¹ The rush of investors to sell their holdings affected adversely all classes of securities. Several brokerage firms were unable to protect themselves and were forced to suspend payments. The extent of the panic was also increased by the discovery that the stock speculation which had prevailed during the early months of the year had been stimulated by many questionable financial practices.² The depression in stock values which began under these conditions was increased by further developments in the currency situation, and in most cases continued until the end of the year. The extent of the decline in prices is apparent from the accompanying table (page 99), showing the opening, closing, and lowest quotations during 1893 of a few leading stocks at the New York Stock Exchange.³

This breakdown on the stock market was the beginning of widespread financial disaster. As a matter of fact it furnished an occasion for the outbreak of the general distrust of the currency situation which had been gaining strength since the beginning of the year. The discredit of the currency, or the fear as to the fixity of the gold standard of payments, assumed outwardly the shape of a loss of confidence in banks and financial institutions. Bank depositors realized that in the event of the general liqui-

¹ Annual Supplement to *The Commercial and Financial Chronicle*, 1894, Financial Review of 1893, pp. 8, 9.

² This was especially true in the case of the National Cordage Company, the stock of which had been foisted upon the public through the manipulation of dividends by its directors.

³ Annual Supplement to *The Commercial and Financial Chronicle*, 1894, Financial Review of 1893, p. 7.

RANGE OF LEADING STOCKS IN 1893.

	Opening.	Lowest.	Closing.
Railroads.			
Baltimore and Ohio	94	54 July 27	67
New York Central and Hudson..	109	92 July 26	98
Pennsylvania	54	46 Dec. 18	48
Atchison, Top. and Santa Fe....	34	9 Dec. 30	10
Chicago, Mil. and St. Paul.....	77	46 July 26	56
Illinois Central	99	86 July 18	89
Northern Pacific (pref.).....	47	15 Aug. 16	18
Union Pacific.....	39	15 July 26	18
Chesapeake and Ohio	22	12 July 26	16
Louisville and Nashville.....	72	39 Dec. 28	44
Miscellaneous.			
American Sugar	111	61 July 26	81
American Tobacco Co.	121	43 July 31	70
National Cordage	138	7 Aug. 25	20
Pacific Mail Steamship	27	8 July 27	14
United States Rubber Co.	46	17 Aug. 17	42
Western Union Telegraph Co....	96	67 July 26	82

dation of credit obligations which had been presaged by the panic in the stock market, financial institutions would not be in a position quickly to convert their assets into gold, and, on account of their small gold reserves, would be unable to pay their obligations in gold. This feeling, which was strong in the interior of the country and especially prevalent over a wide section of the West and South, finally during the months of May and June led to a run upon many Western banks. Moreover, the Government and the banks were already hoarding gold, and it was but a short step to the hoarding of gold and specie by individuals who feared that the country would be reduced to a depreciated silver currency as a basis of payments. This apprehension not only caused the hoarding of gold by individuals, but also led depositors in their rush upon interior banks to demand specie in payment of their accounts.

Under the provisions of the National Banking Law, banks in the interior of the country are required to main-

tain a cash reserve equal to fifteen per cent. of their deposits. Only two fifths of this reserve, however, must necessarily be held in the vaults of the interior banks. The remaining three fifths may be kept on deposit at reserve banks in certain designated cities. Since the demand for loans was usually light in Western sections of the country, except in the harvest season, the bulk of the country's bank reserves had come to be held by certain Eastern reserve agents which usually paid two per cent. interest for the use of the funds. This was especially true during the years subsequent to 1890. Mention has already been made of the flow of legal-tender notes from the West to the East after the harvest of 1891, and of their accumulation in the banks of New York. This movement was symptomatic of the general tendency of idle Western funds to move toward the East. During the two fiscal years 1891 and 1892 the deposit by Western banks of reserve funds in the East increased one third. During the same period Western deposits in New York City were doubled. At the close of the year 1892 the deposits of interior banks in Eastern centres amounted to \$204,000,000.¹ All of this immense amount was payable on demand. When the run of depositors upon Western and other interior banks began in May, these institutions, therefore, in order to meet the pressing demands for cash, at once recalled their reserves and other funds which they had on deposit in the East.

The effect of this action upon the New York bank deposits and reserves at once became evident. During the month of June about \$33,000,000 of deposits were withdrawn from the Clearing-House banks. The withdrawal of cash to the interior steadily continued during the next two months. The deposits of the Clearing-House banks, which were \$431,000,000 in round numbers on June 3,

¹ Noyes's *Thirty Years of American Finance*, p. 190. Report of the Secretary of the Treasury, 1893 (Finance), pp. 431, 433.

had been reduced by August 29 to \$370,000,000. As a consequence of this strain, the reserves of the New York Associated Banks fell below the statutory minimum of twenty-five per cent. on July 8, and the deficiency thus begun continued until September 9. The greatest deficit was one of \$16,545,375 on August 12. The movement of funds to the interior of the country, and the resultant decrease in the reserves and deposits of New York banks from June to September, may be readily seen from the following figures showing the deposits, reserves, and ratio of reserves to deposits of the New York Clearing-House banks : ¹

NEW YORK CLEARING HOUSE BANKS. DEPOSITS, RESERVES
AND RATIO OF RESERVES TO DEPOSITS, JUNE-SEPT., 1893.

(000's omitted.)

Week ended	Deposits.	Specie.	Legal Tenders.	Reserves to Deposits. Per Cent.	Surplus Reserve.
June 3 ..	\$431,411	\$70,156	\$58,683	29.8	\$20,987
10 ..	418,925	69,529	46,623	28.4	14,420
17 ..	406,536	68,218	42,192	27.1	8,776
24 ..	398,064	65,923	39,074	26.3	5,481
July 1 ..	397,979	62,988	37,758	25.3	1,251
8] ..	398,679	61,703	32,884	23.7	5,082 deficit
15 ..	394,174	62,268	32,005	23.9	4,269 deficit
22 ..	390,476	63,853	32,509	24.6	1,256 deficit
29 ..	382,177	62,631	28,610	23.8	4,301 deficit
Aug. 5 ..	372,640	55,884	23,265	21.2	14,017 deficit
12 ..	372,203	53,624	22,880	20.5	16,545 deficit
19 ..	370,302	58,352	22,177	21.7	12,045 deficit
26 ..	370,479	62,930	22,951	23.1	6,736 deficit
Sept. 2 ..	374,010	66,960	25,074	24.5	1,567 deficit

The rapid withdrawal of specie and currency from New York, as shown above, and from other Eastern money centres, by banks in the West and South, was of course followed by a large diminution of the money supply of New York and other Eastern cities. The existing supply

¹ Annual Supplement, *The Commercial and Financial Chronicle*, p. 23, Financial Review, 1894.

was further depleted by the general withdrawal of savings and deposits from financial institutions, on account of the fear that silver and notes redeemable in silver would fall much below gold values. At the same time the curtailment of bank loans, the general rush to liquidate all forms of obligations, and the necessity for funds to provide new margins for holdings of securities, created an unusual and intense demand for legal money of all kinds. There was, in short, a remarkable shrinkage in the Eastern money supply in the face of an intense demand for money, and the logical result of the situation was an extraordinary increase in the rates on call loans and commercial paper. During the latter part of June the rates for call loans in New York ranged as high as seventy-four per cent. On July 28 the rate was seventy-two per cent., and on August 4 fifty-one per cent. was demanded. During these same months the rates on first-class commercial paper ranged from eight to twelve per cent. These high quotations were practically nominal, however, for the reason that only a very small amount of funds could be secured even at these unusual rates of interest. The extraordinary stringency in the New York money market from the close of June to the beginning of September is at once apparent from a glance at the accompanying table, on the next page, which shows the weekly quotations for call loans and commercial paper during this period.¹

On account of the constantly growing demand for money from far and near, the hoarding of money by individuals, and the universal desire to convert goods, securities, and all descriptions of obligations into gold because of the fear of a reversion to a silver standard of payments, the tightness in the money market finally developed into a money-famine. Time-loans were scarcely obtainable. Many city banks adopted the extreme measure of refusing to cash

¹ Annual Supplement, *The Commercial and Financial Chronicle*, p. 33, Financial Review, 1894.

RATES FOR CALL LOANS AND COMMERCIAL PAPER AT NEW YORK
JUNE-SEPTEMBER, 1893.

Week ending Friday,		Call Loans.	Prime Paper.
June	2	2 to 5	6 to 9
	9	2 to 12	6 to 7
	16	4 to 25	6½ to 8
	23	3 to 25	7 to 15
	30	4 to 74	8 to 12
July	7	3 to 25	8 to 12
	14	3 to 20	8 to 12
	21	3 to 11	8 to 12
	28	2 to 72	8 to 12
Aug.	4	2 to 51	8 to 12
	11	2 to 6	8 to 12
	18	2 to 6	10 to 12
	25	3 to 7	10 to 15
Sept.	1	2 to 6	12 to 18

the checks of their own depositors, except in cases where it could be shown that the money was absolutely necessary for personal and business uses. Finally, during the early part of August, a premium was offered for gold, silver, notes, or currency of any kind, and various kinds of media of exchange were devised and used by business and industrial concerns in the payment of wages and other transactions.¹ Despite these expedients, however, the premium on money lasted throughout the month of August, varying from one to five per cent. without regard to the kind of money obtained. Under the pressure to get anything with which to settle the next day's obligation, gold, silver, and paper were all eagerly accepted and rose to the same premium.²

In addition to the device of offering a premium for money, three other plans were adopted for relieving the currency famine. In the first place, national banks de-

¹ "The Currency Famine of 1893," John De Witt Warner, *Sound Currency*, vol. ii, no. 6 (February 15, 1895), p. 339.

² This was a curious phase of a money stringency which had been caused by the distrust of a silver currency, but, as a matter of fact, it was only an incident of the existing situation and showed no confidence in silver.

posited United States bonds with the Comptroller of the Currency, and thus increased their note circulation. In the second place, Clearing-House certificates were issued in large amounts. Finally, Clearing-House certificates were used by a combination of New York bankers as a credit to facilitate the importation of gold from abroad. From these three sources the amount of available currency during the two months of July and August was increased to the extent of \$128,831,276, divided as follows: ¹

Clearing-House certificates, in four Atlantic cities ²	\$62,165,000
Imports of gold into the United States	46,398,930
Increase in national bank circulation	20,267,346
Total increase in two months	\$128,831,276

Clearing-House certificates were first issued freely in New York City on June 21, in an attempt to break down the extraordinary rates for loans. Similar issues had already been made in Philadelphia as early as June 16, and during the latter part of August and the beginning of September, Boston, Baltimore, and Pittsburg followed suit. The extent of the movement and the amount of loan certificates issued in the cities named are indicated in the following table: ³

City.	Date of Issue of First Certificate.	Date of Largest Amount Outstanding.	Largest Amount Outstanding.
New York	June 21	Aug. 29 to Sept. 6	\$38,280,000
Philadelphia . .	June 16	Aug. 15	10,965,000
Boston	June 27	Aug. 23 to Sept. 1	11,445,000
Baltimore	June 27	Aug. 24 to Sept. 9	1,475,000
Pittsburg	Aug. 11	Sept. 15	987,000
Total			\$63,152,000

¹ Annual Supplement, *The Commercial and Financial Chronicle*, p. 31, Financial Review, 1894.

² This total does not include the \$987,000 in loan certificates issued by the Pittsburg banks as shown in a subsequent table.

³ Treasury Report, 1893, p. 358.

The issue of Clearing-House certificates greatly exceeded that of previous years. In 1873 the New York Clearing-House Association issued

These efforts on the part of the banks to provide currency and other means of payments tended to mitigate the severity of the crisis and to assist many business and industrial concerns which were in dire straits. They were not powerful enough, however, to prevent extensive financial and industrial losses.

(The depression in stock values has already been reviewed.¹ On the other hand the mercantile and industrial failures throughout the year were phenomenal. The aggregate liabilities of mercantile and industrial establishments which failed in 1893 were three times as great as the liabilities embraced in the failures of 1891, and almost twice as great as those of the panic year 1890. The total number of failures during 1893, and the liabilities involved, exclusive of railroads and banks, is given below.² For purposes of comparison the returns for 1892 are also added:

MERCANTILE AND INDUSTRIAL FAILURES, 1892-93.

	First Quarter.	Second Quarter.	Third Quarter.	Fourth Quarter.	Total.
1893.					
Number ...	3,202	3,199	4,015	4,826	15,242
Liabilities..	47,338,300	121,582,539	82,470,040	95,389,010	346,779,889
1892.					
Number ...	3,384	2,119	1,984	2,857	10,344
Liabilities..	39,284,349	22,989,331	18,659,235	33,111,252	114,044,167

An examination of these figures reveals two interesting facts relative to the disastrous conditions which prevailed during 1893. In the first place they show that the mercantile and industrial failures began to increase before 1893. The reason for this is plain. The distrust in for-

only \$26,565,000, and the Philadelphia Clearing-House \$6,785,000. In 1890, as already seen, the total issue of Clearing-House certificates by New York, Philadelphia, and Boston banks was \$29,140,000.

¹ See p. 99.

² Compiled from the Annual Supplement, *The Commercial and Financial Chronicle*, p. 17, Financial Review, 1894.

eign countries as to the American currency situation, as already seen, had led to the withdrawal of foreign capital invested in this country. At the same time further commitments of capital were refused. Moreover, the distrust in the ability of the Treasury to maintain gold payments soon affected Americans as well as foreigners, and made them exceedingly cautious in entering into new enterprises.¹ The result was that industrial and trade activity were curtailed on every side. Prices also declined and the margin of profits gradually grew smaller. Under these conditions, the weaker industrial and mercantile concerns experienced difficulty in maintaining their solvency, and as a consequence the amount of failures during the last quarter of 1892 and the first quarter of 1893 showed a decided increase. With the growth of distrust of the currency situation and the resultant stringency in the money market during the spring and summer of 1893, the difficulty of conducting business was intensified, and only the strongest corporations and mercantile houses were able to continue operations. As it was, many of these were forced to suspend, and the smaller establishments which had been already weakened by the depressed conditions prevailing during the previous year were forced to close their doors.²

To these widespread mercantile and industrial failures during 1893 there was also added the collapse of a number of great railway corporations, such as the Reading, the Northern Pacific, the Union Pacific, the Atchison, Topeka and Santa Fé, the Erie, and the New York and New England. The most prominent feature of the crisis during the summer of 1893, however, as well as the most distinctive

¹ This tendency was clearly apparent in the decline of new listings of stocks and bonds on the New York Stock Exchange. New issues of stocks and bonds were \$23,000,000 less, in round numbers, in 1892 than in 1891, and the listings for 1893 were \$42,000,000 below the reduced level for 1892. Annual Supplement, *The Commercial and Financial Chronicle* p. 13, Financial Review, 1893.

² *Ibid.*, 1894, pp. 16-18, Crisis of 1893 and the Year's Failures.

and exceptional, was the numerous bank failures and suspensions. During the five years preceding 1893 there had been an annual average of about twelve national bank failures. About forty-four banks each year also had gone into voluntary liquidation. In comparison with these figures, 158 national banks suspended, and 46 went into voluntary liquidation, during the first nine months of 1893. Of the national banks which suspended, three were located in the Middle States, 38 in the South, 49 in the West, and 66 in the Pacific States and territories.¹ Private banks and financial institutions also came in for a proportional share of disaster. The entire number and classes of banks and financial establishments which suspended and those which resumed, from January 1 to September 1, 1893, together with their assets and liabilities, is shown in the following table, compiled by the Comptroller of the Currency:²

BANKS, ETC., WHICH SUSPENDED, JAN. 1 TO SEPT. 1, 1893.

Class.	Number.	Assets.	Liabilities.
State Banks.....	172	\$41,281,848	\$36,903,266
Savings Banks.....	47	17,673,938	16,830,809
Loan and Trust Companies..	13	14,337,500	22,354,000
Mortgage Companies.....	6	760,803	1,790,000
Private Banks.....	177	20,237,259	19,315,455
	415	94,291,348	97,193,530

The financial and industrial chaos which was produced by these unprecedented bank failures reigned throughout

¹ *Treasury Report, 1893 (Report of Comptroller Eckels)*, pp. 347-349.

The number of suspensions in the South and West was especially great for the reason that the banks in those sections of the country had extended their loans during the year 1892. When the run of depositors, as already described, upon these institutions was started in June, the banks were not able to convert their assets into a liquid form and in many cases the demands of depositors were so pressing that the banks were compelled to close their doors at a time when their reserve deposits were already on the way to them, having been shipped from Eastern centres.

² *Treasury Report, 1893 (Report of Comptroller Eckels)*, p. 351.

the summer of 1893. The turning-point came during the latter part of August. On the 30th of June President Cleveland issued a call for Congress to meet in extraordinary session on the 7th of August. Shortly after the convening of Congress a bill repealing the silver purchase clause of the law of 1890 was introduced in the House, and after a sharp debate was passed, on August 28, by a majority of 131 votes. Although the Senate delayed action until October 30, when it finally passed the measure, the unexpected vote of the House restored confidence in the country's financial integrity, and marked the close of the most acute period of the crisis. Contemporary evidence of this fact was furnished by an authoritative financial journal which made the following significant comment on the situation: ¹

"This [the vote of the House] was the turning-point of the whole financial crisis of 1893; confidence was restored like magic; money began to come back into the banks and kept on accumulating, until on December 30 the surplus reserve of the New York banks reached \$80,115,150; the Clearing-House certificates were drawn in gradually, and by November 1 all were canceled. After the decisive vote in the popular branch of the National Legislature the country never lost confidence, and ultimate repeal was considered certain notwithstanding the desperate opposition in the Senate."

After the first week in September the money market relaxed until funds were loaned on call in New York during the latter part of December at the unprecedented rate of $\frac{3}{4}$ of one per cent. A revival on the stock market followed, and a large share of the losses in stock values during the summer were recovered by the end of the year. But the influence of the extraordinary failures during the acute period of the crisis, and the burden of silver obligations which had been issued by the Government since 1878, still

¹ Annual Supplement, *The Commercial and Financial Chronicle*, p. 2, Financial Review, 1894.

remained, and marked out a precarious future both for the Treasury and for the trade and industry of the country. It is not necessary, however, to enter into these subsequent years of trade and industrial stagnation, and of Government fiscal and monetary difficulty. The movements which culminated in the financial and industrial breakdown during the summer of 1893 have already been traced in considerable detail. The nature and extent of the catastrophe have also been described. Consequently the object of the investigation has been attained since a position has now been reached where a conclusion may be safely drawn as to the cause of the crisis.

CHAPTER VIII

THE CAUSE OF THE CRISIS OF 1893

The Crisis of 1893 cannot be ascribed to a Continued Operation of the Forces which caused the Panic of 1890 in the United States. — During the Period 1891-93 Financial and Industrial Conditions in Great Britain, Germany, and France showed a Healthy Development. — Hence the Crisis of 1893 in the United States did not arise from any Difficulties Abroad. — The Crisis of 1893 was Local in its Occurrence and Cause. — It was not due to an Extension of Mercantile and Industrial Credits or to a Scarcity of Money in the United States. — It was a Monetary Crisis caused by Widespread Apprehension as to the Fixity of the Gold Standard of Payments.

IN attempting to reach a decision as to the cause, or causes, of the crisis of 1893 in the United States, it is evident, in the first place, that the crisis of 1893 was not due to a continuation of those forces which brought about the panic in this country during the autumn of 1890. The stringency in the American money market, the collapse of stock values, and the resultant industrial and financial failures in the United States during that year, as already seen, were a reflection of the state of affairs which had been precipitated in Great Britain by English speculation in Argentina and other countries. In the fall of 1890 Great Britain, in the height of her distress, found it necessary to recall part of the funds which she had invested in American railroads, and to sell in this country part of her holdings of American and other negotiable securities.

But the necessity for this forced sale of securities in the United States by British investors, as already pointed out, had soon ceased.¹ The combined action of the Bank of England and the financial houses of London in guaranteeing the assets of the firm of Baring Brothers and in freely extending bank accommodations prevented a severe panic

¹ See p. 79.

in Great Britain. A large measure of confidence was soon restored, and loans were obtainable on easy terms. By the first of April, 1891, the discount rate of the Bank of England had been reduced to 3 per cent. In June, 1891, the rate fell to $2\frac{1}{2}$ per cent., and the average for the entire year was $3\frac{5}{11}$ per cent. The average market rate for the year was $1\frac{5}{11}$ per cent. lower than the rate of the Bank of England. Under these conditions British investors and financial houses could easily obtain loans on gilt-edged securities, and were not compelled, therefore, to sell securities in the United States in order to meet their own financial necessities. Moreover, after the immense grain crop in the United States during 1891, as already indicated, gold was imported from Great Britain by the United States. In the autumn of 1891 American railroad stocks and bonds were also favored purchases on the London Stock Exchange, and at the close of that year the entire list of American railroad securities showed an increase in value as compared with the closing quotation of the year 1890, ranging from four to twenty per cent.¹ Had the currency situation in the United States been sound at that date, there would have been no further recall of British capital or return of American securities by British investors. It is true that during the two subsequent years, as already seen, there was a constantly growing tendency on the part of Great Britain and other foreign countries to realize on their investments in the United States.² But the sale of securities by foreigners in this country and the outflow of gold from the United States during these years was due to a set of forces entirely different from those which caused the return of American securities in 1890 by British investors. In 1890 British holders of American securities were forced to adopt this policy in order to realize funds to meet their own obliga-

¹ Annual Supplement, *The Economist* (London), vol. 50 (February 20, 1892), p. 36, Commercial History and Review of 1891.

² See p. 89.

tions; during the subsequent years, 1891-93, they were constrained to sell American securities by the fear that the United States would be unable to maintain gold payments. The Baring failure, in short, and the consequent liquidation in Great Britain had no influence upon conditions in the United States after the early part of the year 1891, and the financial collapse in the United States during 1893 cannot possibly be ascribed to a continued operation of the causes which were responsible for the panic of 1890 in this country.

It is equally apparent, in the second place, that the crisis of 1893 did not arise from any other causes which had their origin outside of the United States. This conclusion is incontrovertible, for the reason that financial and industrial conditions in other commercial nations during the three years, 1891-93, were not marked by any developments which could have possibly reacted disastrously upon this country. On the contrary, foreign countries during this period suffered severely from the state of affairs in the United States.

Industrial and financial affairs in Great Britain during the three years, 1891-93, were conducted with such caution and conservatism as to contrast sharply with the previous period of reckless speculation. The confidence of investors in domestic enterprises was weakened by the discovery of the rash and corrupt financial practices which came to light through the publicity attached to the liquidation of the numerous trust companies and other concerns which had figured so prominently in the speculative movement that had absorbed such a large amount of the savings of the public in the years preceding 1890. (At the same time the growing apprehension in Great Britain after 1891 over the currency situation in the United States, the default of the Uruguayan Government in 1892, the political revolution in Brazil in 1893, the development of a banking crisis in Australia in the same year, together with the continued state of uncertainty relative to Argentine finances, also had

the effect of impairing the confidence of British investors in foreign industrial and financial undertakings.) They refused to place their funds in any investments except first-class securities. As a consequence the amount of new capital commitments in Great Britain steadily decreased.¹ Although the discount rates were low,² the stock market was depressed, and there was an entire absence of speculation.

This financial depression was strongly reflected in the domestic industry of the United Kingdom. The countries of Central and South America were unable to get the credit which they had formerly enjoyed in London, and consequently were forced greatly to lower their purchases of British goods. The market for British commodities in the United States was also curtailed by the prohibitive rates of the McKinley tariff law, and the industrial and financial crash in this country during 1893. (On account of the depression existing in Germany and France, those countries also reduced their purchases in Great Britain.) The foreign trade of the United Kingdom during the period 1890-93 steadily declined, and it was not until the year 1895 that any pronounced upward movement developed.³

¹ The total capital created and issued in Great Britain during the four years 1890-93 was as follows :

1890.....	£142,565,000
1891.....	104,594,910
1892.....	81,137,177
1893.....	49,141,188

² The average discount rate of the Bank of England, and the average market rate during the years 1890-93 was as follows :

	Bank of England. Per Cent.	Market. Per Cent.
1890.....	4 / 10 / 4	3 / 13 / 11
1891.....	3 / 5 / 11	2 / 10 / 0
1892.....	2 / 9 / 11	1 / 9 / 5
1893.....	3 / 1 / 4	2 / 2 / 0

³ The foreign trade situation in Great Britain during the period

(This reduction in the volume of foreign trade, as a matter of course was attended by a decreased activity in domestic trade and industry.¹) Although the volume of interior trade was maintained, prices were lower and profits smaller. The entire period 1891-93 in Great Britain, in short, was marked by the continued effort to liquidate past losses; to avoid future excesses, and to conduct financial and industrial operations on a safe and conservative basis. These efforts were in the main successful. Trade and industry, (in view of the many adverse influences which they had to encounter, both at home and abroad, made a remarkably good showing, and met with no serious disasters. Each year after 1890 the financial structure was placed on a more sound and solid basis, and the movement away from the disastrous conditions which had been precipitated by the financial collapse in 1890 was steadily maintained.²

(Conditions similar to those in Great Britain prevailed in Germany. The reckless speculation in that country which culminated in the financial collapse of 1889 was followed by financial and industrial depression up to the close of the year 1893.) In a previous chapter it was ascertained that the year 1890 in Germany was marked by a decline in stock

1890-93 appears in the following table, which shows the increase or decrease per cent. of the volume of foreign trade as compared with previous years;

	Total Imports and Exports. Per Cent.	Exports of Home Produce. Per Cent.
1890.....	0.39 decrease	0.51 decrease
1891.....	0.25 decrease	5.30 decrease
1892.....	1.17 decrease	3.43 decrease
1893.....	1.68 decrease	2.10 decrease

¹ London Bankers' Clearing-House returns decreased from £7,801,048,000 in 1890 to £6,478,013,000 in 1893. Railroad traffic receipts were reduced from £32,902,000 in 1891 to £30,632,900 in 1893. A part of the decrease in 1893, however, was due to mining strikes which curtailed shipments of coal.

² Annual Supplement, *The Economist* (London), vols. I-III, Commercial History and Review, 1891-93,

values and a liquidation of past excesses.¹ During the three subsequent years this process continued. The taste for capital adventure was lost. The public was exceedingly timid about placing its funds in new enterprises, and only first-class securities were purchased. Almost all descriptions of stocks and bonds decreased in value. Consequently there was a steady reduction in the amount of German capital commitments, and in the number and total capitalization of joint-stock companies organized.² Idle funds accumulated in the banks, and the rates of discount were low.³ In the domain of trade and industry this finan-

¹ See p. 69.

² The total capital commitments in Germany during the period 1890-94 was as follows. From a comparison of the figures it will be seen that there was a marked decrease during the three years 1889-92, and an upward movement commencing with the year 1893.

TOTAL CAPITAL COMMITMENTS IN GERMANY.

	Million Marks.
1889	1745
1890	1520
1891	1217
1892	1016
1893	1266
1894	1289

Practically the same tendency is evident from a comparison of the number and capitalization of joint-stock companies organized during the same period:

	Number of Companies.	Total Capital (Million Marks).
1889.....	360	402.54
1890.....	236	270.99
1891.....	160	90.24
1892.....	127	79.82
1893.....	95	77.26
1894.....	92	88.26

Le Marché Financier, 1894-95, A. Raffalovich, pp. 107-108.

³ The average bank rate of discount at Berlin was 3.81 per cent. in 1890, 3.09 per cent. in 1891, 1.79 per cent. in 1892, 3.21 per cent. in 1893, and 1.77 per cent. in 1894. — *Le Marché Financier en 1894*, p. 113.

cial prostration of the country was severely felt, and was evidenced, as in Great Britain, by lower prices and a reduced margin of profits.

Even under these adverse conditions, however, industry and business were remarkably well sustained. Germany suffered no shortage in her agricultural production during the year 1892, when the wheat harvests in France and Russia were almost total failures. The German grain crop of 1893 was also satisfactory. Under these conditions the work of financial recuperation was steadily pushed forward. Losses were written off, over-commitments of capital were reduced, and on every side a general policy of retrenchment was pursued. The result was that German domestic trade and industry gave evidence of a revival as early as 1893, and during the following year there was an increase in foreign and interior trade, and a general movement toward more prosperous conditions. Railroad traffic receipts were better, bank clearings were larger, the volume of capital emissions was greater, and bank and industrial stocks were quoted at higher prices.¹ Germany, in short, during the latter half of 1893 began to free herself from the liquidation of the previous three years, and to enter upon a period of unchecked prosperity?

The financial and industrial situation in France during the period 1891-93 was somewhat different from that in Great Britain and Germany, for the reason, as already seen, that France had fortunately been prevented by the failure of the copper syndicate and the Panama Canal Company from entering into the reckless speculation which characterized the German and English financial situation during the years immediately preceding 1890. Consequently there was no heavy liquidating movement in France after that year such as prevailed in Great Britain and Germany. Moreover, during these same years, French trade and industrial movements were depressed, partly by the

¹ *Le Marché Financier en 1894, Le Marché de Berlin*, pp. 83-124.

refusal of French investors to place their capital in new enterprises, and partly by the effect of adverse conditions which existed in foreign countries. At the same time there were no evidences of any speculation or of the commitment of capital in hazardous undertakings. The Paris Bourse was firm, and more activity was displayed than at London or Berlin. Financial institutions were in excellent condition, large amounts of idle funds were accumulated, and the rates of discount were low. The condition of trade and industry also was not of a nature to cause serious anxiety. Toward the close of the year 1892 there was a change for the better. Encouraged by a similar movement in England, French investors seemed to regain confidence, and embarked in extensive mining operations in South Africa. During the following year large issues of Government securities were followed by the development of an upward movement in prices on the Paris Bourse. The timidity of investors and speculators disappeared. Foreign and domestic trade also showed decided improvement, and a general movement toward more prosperous conditions was inaugurated.¹

(From this brief summary of financial and industrial conditions in Great Britain, France, and Germany during the period 1890-93 it is clearly evident, therefore, that the crisis of 1893 in the United States could not have been due to any difficulties abroad.) The general situation in Great Britain and Europe during these years was marked by a steady upward movement from a condition of financial depression to one of prosperity. Germany and France at the close of 1893 were entering upon a trade and industrial revival. Great Britain followed their lead in the early part of the year 1894. Consequently there were no conditions in these countries which were analogous, or had any causal connection with the financial crisis in the United States. The conclusion is irresistible that the disastrous break-

¹ *Le Marché Financier en 1894*, pp. 1-26.

down in the United States during the summer of 1893 was local, not only in its occurrence, but also in its cause, or causes, and that it is not necessary to go beyond the borders of this country in search of an explanation of the calamity.

But what was the local and the true cause of the crisis of 1893 in this country? Perhaps it has already been inferred from the review of developments in the United States during the years preceding 1893. In the light of these developments, the financial breakdown in 1893 cannot be said to have been due to a scarcity of money in the United States at that time, for the Silver Act of 1878 had increased the available circulation \$378,000,000, in round numbers, and after 1890 the Sherman Law added something like \$50,000,000 annually to the circulating medium of the country. During the entire period 1878-93 the amount of money in circulation more than doubled.¹ Consequently the money supply was ample. On the other hand, it cannot be maintained that the crisis of 1893 was caused by an extension of mercantile credits such as brought about the disastrous collapse of 1873, for it has already been pointed out ² that business houses and industrial establishments during the period 1891-93, instead of extending, were curtailing their operations, and were arranging their plans in the expectation of a breakdown in the financial machinery of the country. They could not have engaged in any extended or hazardous activities if they had been inclined to do so, for the reason, as already seen,³ that very little, if any, foreign capital was obtainable for investment in the United States after 1891, and American capital likewise refused to enter into doubtful financial or industrial undertakings. So far as the withdrawal of foreign and domestic funds, however, brought about industrial and business disaster, it was not a direct cause

¹ *Report of the Secretary of the Treasury*, 1893, p. cxv.

² See p. 105.

³ See p. 105 *et seq.*

of the crisis, but only the result which flowed out of the operation of the primary and fundamental cause.

This cause to which the crisis of 1893 is directly and wholly attributable consisted of a widespread fear, both at home and abroad, that the United States would not be able to maintain a gold standard of payments. The very nature of the crisis itself of 1893 bears out this conclusion. It was essentially a monetary crisis, and its typical feature consisted in the numerous failures of banks and financial institutions. Moreover, the precipitation of and the recovery from the crisis furnishes additional evidence to bear out the foregoing claim. The beginning of the crisis, as already seen, was marked by the decline of the Treasury gold reserve, on April 22, below the \$100,000,000 limit; the ending of the resultant industrial and financial chaos dated from the repeal, on August 28, of the Silver Law of 1890.

The apprehension in 1893 as to the fixity of the gold standard of payments arose indirectly out of the silver agitation and legislation during the period 1878-90, and was directly traceable to the operation of the Sherman Silver Purchase Law of 1890. For seventeen years, 1878-90, the gold standard of payments was constantly threatened, and the crisis of 1893 was practically the culmination of this long period of uncertainty. Under the operation of the Silver Act of 1878, as already seen, the country received a serious shock to its confidence in the fixity of the gold standard. During the two years, 1884-86, when the silver issues of the country became redundant, the distrust in the ability of the Treasury to maintain gold payments became so great that gold was withheld in the payments of customs duties, and silver certificates worked off on the Treasury. Additions to the Treasury's supply of gold were thus cut off, and the gold reserve declined to \$115,000,000 (see Chart II, p. 93). As a consequence, apprehension as to the maintenance of gold payments became widespread,

and a panic was narrowly averted.¹ As it was, the stream of silver was only prevented from overflowing the Treasury by the action of the Treasury officials in employing artificial devices to create a vacuum in the circulation. Confidence was thus temporarily restored, and during the period 1886-90 gold payments were made into the Treasury. The Treasury gold reserve increased by the year 1890 to \$195,000,000 (see Chart II, p. 93).

The advocates of the free coinage of silver, however, held the balance of political power during the first session of the Fifty-first Congress, and as a result of their agitation the Sherman Law was passed, and, as already shown, almost doubled the amount of silver obligations annually issued by the Government. The country might have progressed safely under the Act of 1878, but the question of the fixity of the gold standard was opened afresh by the operation of the Sherman Law. The currency of the country soon became redundant, and, as had happened in the two years 1884-86, silver certificates and Treasury notes were used in the payments of public dues, while gold was hoarded. Consequently the Treasury gold reserve rapidly declined, and fear for the maintenance of the standard again arose. Because its supplies of gold were decreased by the displacement of gold by silver currency in the Government revenues, the Treasury adopted the policy of hoarding gold and making its payments through the New York Clearing-House in the form of legal-tender notes. This action led to a further impairment of confidence. Foreign investors and exporters saw the danger in the situation even before the people of this country, and began to withdraw the funds which they had invested in this country during the period 1886-90. Moreover, they called for the payment of trade balances in gold. Gold was, therefore, demanded for export. But the banks in the United States were hoarding gold, and gold for export could practically be obtained only by

¹ See p. 22 *et seq.*

the presentation of legal-tender notes at the Treasury for redemption. This operation caused a further inroad upon the Treasury gold reserve. Larger amounts of funds were drawn from the country, and increasing amounts of gold flowed out of the Treasury in the redemption of legal-tenders. The limit was finally reached on April 22, 1893, when the gold reserve fell below the danger-line. At that time the fears of the public over the question of the standard of payments reached a climax.

As soon as it became known that the gold reserve of the Treasury had declined below the danger-point of \$100,000,-000 the apprehension relative to the fixity of the standard developed into a panic. There was an immediate rush to realize on all descriptions of property before the gold standard was abandoned. The public were afraid of the adoption, as the standard of payments, of a silver dollar which was worth only fifty cents in gold. At the same time overwhelming demands were made upon the banks to pay their accounts in gold or specie, and the cash thus obtained by depositors was hoarded and the existing money supply contracted. Under these conditions gold seemed scarce. In reality gold was only relatively scarce in comparison with the abnormal offering of property for sale on account of the fear of the silver standard. In the face of the universal demand, however, to convert property into cash or some other liquid form of exchange, those having obligations to meet found it impossible to secure funds, and the result was soon seen in widespread industrial and financial disaster. Distrust of the fixity of the standard gave way to unreasoning panic, and it was not until the House of Representatives repealed the Sherman Law that the public believed that the gold standard was not going to be abandoned. With the growth of this conviction confidence was restored like magic; gold again flowed into the Treasury, and its depleted reserves were increased.

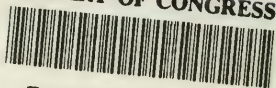
The fiscal policy of the Harrison Administration, — the

increase of Government expenditures and the cutting-down of Government receipts from customs,— by weakening the resources of the Treasury, provided favorable conditions for the play of the fundamental cause of the crisis, and thus hastened the precipitation of the disaster. The withdrawal of the enormous amounts of foreign funds during the years 1891–93, which had been invested in the United States during the prosperous period 1886–90, also rapidly drained the Treasury of its gold reserves through the necessity of providing gold for export. This process, however, as already shown, was not itself a cause, but on the contrary was a consequence of the operation of the true cause of the crisis of 1893. The fundamental and effective cause of the crisis of that year was the fear as to the fixity of the gold standard, or, in other words, the apprehension, which was prevalent both in this country and abroad, that the United States would be unable to maintain the gold standard of payments.

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